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Politics this week



Scores more people died in the **Syrian** government's crackdown on protesters. More than 450 people are reported to have been killed since demonstrations began six weeks ago. The European Union and the UN secretary-general condemned the violence, though the UN Security Council did not. There were calls for sanctions to be imposed on Bashar Assad's regime. See article

Hosni Mubarak, who has had heart trouble, was ordered by **Egypt's** chief prosecutor to be moved from a hospital in Sharm el-Sheikh, where he has been staying since his resignation as president in February, to a military medical facility, before being taken to a prison hospital in Cairo. Mr Mubarak and his two sons seem likely to be tried for corruption and ordering troops to fire on demonstrators shortly before his regime fell.

A deal brokered by the Gulf Co-operation Council, led by Saudi Arabia, proposed that Ali Abdullah Saleh step down as **Yemen's** president. Though opposition parties have agreed to the deal, pro-democracy protesters are angry that Mr Saleh is to be granted immunity from prosecution. See article

After a bitter quarrel lasting five years, Mahmoud Abbas's secular Fatah party, which runs the West Bank, and Hamas, the Islamist movement that governs the Gaza Strip, agreed to be reconciled. Under the agreement, brokered by Egypt, the **Palestinian** factions say they will form a unity government and fix a date for delayed elections. See article

In **Libya** the battle continued for Misrata, the only remaining rebel enclave in the west. Colonel Muammar Qaddafi's forces withdrew from the city but the rebels came under heavy fire from the Libyan leader's artillery outside. See article

The British high commissioner to **Malawi** was told to leave the country. This came after the leak of a diplomatic cable in which he said that Bingu wa Mutharika, the Malawian president, did not tolerate criticism.

National security shake-up

Barack Obama nominated **Leon Panetta**, the CIA's director and a former chief of staff to Bill Clinton, as defence secretary, to take over from Robert Gates. Mr Panetta's replacement as CIA chief is to be **General David Petraeus**, the commander of coalition forces in Afghanistan.

Bowing to rumours that have been fanned recently by Donald Trump, the White House released the full version of Mr Obama's **birth certificate** in an effort to quash the claim of "birthers" that he was not born in the United States. Mr Obama said he decided to release the document as America does not "have time for this kind of silliness". Ardent birthers may disagree. See article

Tornadoes and storms killed scores of people across southern states; 61 deaths were in Alabama alone.

An unrelenting bloodbath



The number of bodies found at mass graves in two states in northern **Mexico** continued to climb, to almost 300. The victims appeared to have been kidnapped by drug gangs. See article

In a surprising twist in the campaign for **Canada's** general election on May 2nd, the New Democrats, a small social-democratic party, overhauled the Liberals in the opinion polls to become the main challengers to the Conservative Party of Stephen Harper, the prime minister. See article

Venezuela's leftist president, Hugo Chavez, increased a windfall tax on the output of PDVSA, the state oil company, and its foreign partners. Officials said this could bring in up to $16 billion a year. Mr Chavez, who will seek another term at an election next year, also wants to raise public-sector wages by up to 66%.

Nationalist claims

Thailand and **Cambodia** exchanged fire at disputed points along their border, killing at least 15 people, most of them soldiers, and displacing 60,000 civilians. The clashes are an escalation of skirmishes that began earlier this year. Both sides are expected to meet in Jakarta next week during a summit of South-East Asian leaders. See article

A spectacular jail break at southern **Afghanistan's** largest prison saw nearly 500 prisoners, most of them Taliban, scurry to freedom. An officer in the Afghan air force turned his weapon on NATO troops, killing eight people. The government cancelled its annual military parade the next day, citing the lack of security. See article

A month-long confrontation at Kirti monastery, in a Tibetan part of **China's** Sichuan province, erupted in violence following the death of a young monk who had set fire to himself. More than 300 Buddhist monks were forcibly removed from the monastery, to undergo "patriotic re-education". Chinese authorities blamed the monks for starting the disturbance.

Tibetans abroad elected Lobsang Sangay, a legal scholar at Harvard, as prime minister of their government-in-exile, making him the first layman to serve as the community's political leader.

A panel advising the UN secretary-general issued a report on the final days of **Sri Lanka's** war against Tamil separatists. Without a mandate to investigate, the panel nonetheless found "credible evidence" that war crimes were committed by both sides in 2009, and that the Sri Lankan army killed tens of thousands of civilians. Sri Lanka's government said the report threatened its ability to build the peace. See article

Turkmenistan took another small step back from the idol worship of its late president, Saparmurat Niyazov. The stream-of-consciousness life story of the self-styled Turkmenbashi, or father of the Turkmens, was replaced in school graduation exams by courses on computer science.

The Sarko and Silvio show

Nicolas Sarkozy travelled to Rome to meet Silvio Berlusconi in an attempt to defuse a row over north African migrants arriving in **Italy** and crossing the border into **France**. At the pair's press conference, Mr Sarkozy said he backed Mario Draghi, head of Italy's central bank, for the job of president of the European Central Bank. See article

There were anti-nuclear protests in western Europe, and commemoration ceremonies in Ukraine and Belarus, to mark the 25th anniversary of the **Chernobyl** disaster.



A young man and his fiancee were expected to get married in central **London** on April 29th. Millions of Britons took advantage of the opportunity to take a foreign holiday.

Business this week

More concerns were raised about the potentially weak measures that companies employ to protect and secure **data over the internet**. Amazon's cloud-computing online-storage service broke down, causing websites run by Foursquare, ProPublica and others to crash and prompting questions about Amazon's backup procedures. And Sony (eventually) admitted that hackers had broken into its PlayStation Network and gained access to the personal information of some 77m customers, possibly including credit-card details. See article

Apple faced growing criticism over the way it gathers positioning data from iPhones. Steve Jobs, the company's boss, took time from sick leave to reassure users: "Your precise location is never transmitted to Apple." The company traces information from iPhones about tower masts and other transmitters to build mapping features on devices.

Meet the press

Ben Bernanke held a press conference at the end of the **Federal Reserve's** latest policy meeting, the first time a chairman of the central bank has hosted such an event. There were no surprises as Mr Bernanke affirmed that the Fed was in no hurry to raise interest rates; its $600 billion quantitative-easing programme will end in June. See article

After an ever-so-brief lull, **gold** and **silver** prices continued their breathless rally after Mr Bernanke's press conference, with gold well above $1,500 a troy ounce and silver marching towards $50. The **dollar** sank to a new three-year-low against a basket of currencies. See article

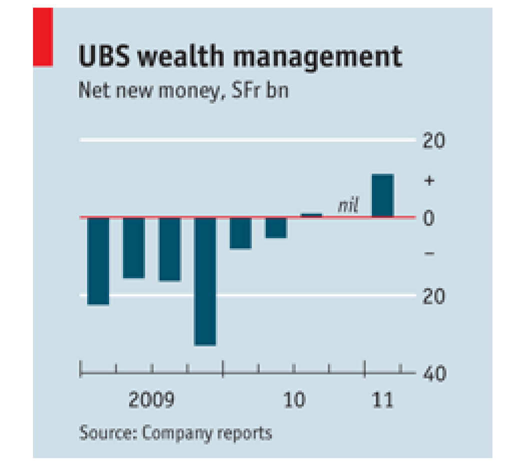
Standard & Poor's changed its outlook for **Japan's** long-term sovereign debt from "stable" to "negative". The credit-rating agency, which recently made a similar adjustment to its outlook for America's debt, said it was concerned that Japan's reconstruction costs after last month's earthquake and tsunami could weaken the country's public finances "in the absence of fiscal consolidation to offset them". Meanwhile, the Bank of Japan sharply reduced its growth forecast for the year, from 1.6% to 0.6%, because of the twin disasters.

Johnson & Johnson made its takeover of **Synthes** official by agreeing to pay $21.3 billion for the medical-device-maker.

BP announced a headline profit of $5.5 billion for the first quarter, slightly less than the profit it made during the same period last year. The energy company's output fell by 11% in the quarter, partly because it has had to sell some oilfields and refineries to help cover the cost of its oil spill in the Gulf of Mexico. Meanwhile, BP started legal proceedings in Louisiana against Halliburton, Transocean and Cameron International, its contractors on the Deepwater Horizon rig, claiming that they contributed to the accident.

Canada's **Barrick Gold** made a friendly C$7.3 billion ($7.6 billion) offer for **Equinox Minerals**, which includes a big copper mine in Zambia among its assets, topping a hostile bid from **Minmetals Resources**, the largest iron and steel trader in China. Minmetals confounded market expectations of a bidding war when it responded by withdrawing its proposal.

Springtime in Zurich



UBS reported that its core wealth-management business had done much better than expected in the first three months of the year, with net inflows of new money reaching SFr11.1 billion ($11.8 billion). The Swiss bank took far bigger losses than most of its rivals during the financial crisis, causing many wealthy clients to withdraw their cash. UBS pointed to its first-quarter performance as evidence that "trust and confidence" in its business has returned.

HSBC decided to close its retail-banking operations in Russia. The bank has found it hard to break into the market amid competition from state-controlled Russian banks, such as Sberbank, and other international financial companies. Stuart Gulliver, HSBC's boss, is expected soon to unveil a shake-up of its operations in other emerging markets.

The audit committee of **Berkshire Hathaway**, the investment firm led by Warren Buffett, released a report criticising the behaviour of David Sokol, one of Mr Buffett's potential heirs until his abrupt resignation in March. Mr Sokol had bought shares in a company, before recommending that Berkshire consider acquiring it. The committee found Mr Sokol had violated Berkshire's insider-trading and ethics policies, and the company may pursue legal action against him.

A goal for 2014

Brazil's government said it wanted to increase private-sector involvement in the running of five airports, including Sao Paulo's international airport. Many of the country's airports are choked, and the government wants them to improve before it hosts the football World Cup.

Index | The world this week

KAL's cartoon



Index | Leaders

Angst in the United States

What's wrong with America's economy?

Its politicians are failing to tackle the country's real problems. Believe it or not, they could learn from Europe


Superstock/The Economist

PESSIMISM about the United States rarely pays off in the long run. Time and again, when Americans have felt particularly glum, their economy has been on the brink of a revival. Think of Jimmy Carter's cardigan-clad gloom in the inflation-ridden late 1970s, or the fear of competition from Japan that marked the "jobless recovery" of the early 1990s. Both times the United States bounced back, boosted on the first occasion by Paul Volcker's conquest of inflation and on the second by a productivity spurt that sent growth rates soaring in the mid-1990s even as Japan stalled.

That record is worth bearing in mind today. Americans are unhappy, and becoming more so, about their country's prospects and politicians' efforts to improve them. In a new *New York Times*/CBS News poll, seven out of ten respondents said America is on the wrong track. Almost 60% of Americans disapprove of Barack Obama's handling of the economy, and three out of four think Congress is doing a lousy job.

This malaise partly reflects the sluggishness of the recovery. Though unemployment has been falling and share prices are close to a three-year high, house prices are still in the dumps and the price of petrol has soared to levels not seen since the summer of 2008. But it's not all about oil or indeed the short term. A careful reading of the polls suggests that Americans' worries stretch well beyond the next couple of years: about stagnating living standards and a dark future in an economy slow to create jobs, saddled with big government deficits and under threat from China. Tellingly, a majority now regard China, not America, as the world's leading economy.

Are these worries justified? On the plus side, it is hard to think of any large country with as many inherent long-term advantages as America: what would China give to have a Silicon Valley? Or Germany an Ivy League? But it is also plain that the United States does indeed have long-term economic weaknesses-and ones that will take time to fix. The real worry for Americans should be that their politicians, not least their president, are doing so little to tackle these underlying problems. Three failings stand out.

The competitiveness canard

The first failing, of which Mr Obama in particular is guilty, is misstating the problem. He likes to frame America's challenges in terms of "competitiveness", particularly versus China. America's prosperity, he argues, depends on "out-innovating, out-educating and out-building" China. This is mostly nonsense. America's prosperity depends not on other countries' productivity growth, but on its own (actually pretty fast) pace. Ideas spill over from one economy to another: when China innovates Americans benefit.

Of course, plenty more could be done to spur innovation. The system of corporate taxation is a mess and deters domestic investment. Mr Obama is right that America's infrastructure is creaking (see article). But the solution there has as much to do with reforming Neanderthal funding systems as it does with the greater public spending he advocates. Too much of the "competitiveness" talk is a canard-one that justifies misguided policies, such as subsidies for green technology, and diverts attention from the country's real to-do list.

High on that list is sorting out America's public finances. The budget deficit is huge and public debt, at over 90% of GDP when measured in an internationally comparable manner (see article), is high and rising fast. Apart from Japan, America is the only big rich economy that does not have a plan for getting its public finances under control. The good news is that politicians are at last paying attention: deficit reduction is just about all anybody talks about in Washington, DC, these days. The bad news-and the second reason for gloom about what the politicians are up to-is that neither party is prepared to make the basic compromises that are essential to a deal. Republicans refuse to accept that taxes will have to rise, Democrats that spending on "entitlements" such as health care and pensions must fall. No real progress is likely until after the 2012 presidential election. And the antagonism of today's deficit debate may even harm the economy, as Republicans push for excessive cuts in next year's budget.

When growth doesn't bring jobs

Meanwhile, the biggest dangers lie in an area that politicians barely mention: the labour market. The recent decline in the jobless rate has been misleading, the result of a surprisingly small growth in the workforce (as discouraged workers drop out) as much as fast job creation. A stubborn 46% of America's jobless, some 6m people, have been out of work for more than six months. The weakness of the recovery is mostly to blame, but there are signs that America may be developing a distinctly European disease: structural unemployment.

Youth unemployment is especially high, and joblessness among the young leaves lasting scars. Strong productivity growth has been achieved partly through the elimination of many mid-skilled jobs. And what makes this all the more worrying is that, below the radar screen, America had employment problems long before the recession, particularly for lesser-skilled men. These were caused not only by sweeping changes from technology and globalisation, which affect all countries, but also by America's habit of locking up large numbers of young black men, which drastically diminishes their future employment prospects. America has a smaller fraction of prime-age men in work and in the labour force than any other G7 economy. Some 25% of men aged 25-54 with no college degree, 35% of high-school dropouts and almost 70% of black high-school dropouts are not working (see article).

Beyond the toll to individuals, the lack of work among less-skilled men could have huge fiscal and social consequences. The cost of disability payments is some $120 billion (almost 1% of GDP) and rising fast. Male worklessness has been linked with lower marriage rates and weakening family bonds.

All this means that grappling with entrenched joblessness deserves to be far higher on America's policy agenda. Unfortunately, the few (leftish) politicians who acknowledge the problem tend to have misguided solutions, such as trade barriers or industrial policy to prop up yesterday's jobs or to spot tomorrow's. That won't work: government has a terrible record at picking winners. Instead, America needs to get its macro-medicine right, in particular by committing itself to medium-term fiscal and monetary stability without excessive short-term tightening. But it also needs job-market reforms, from streamlining and upgrading training to increasing employers' incentives to hire the low-skilled. And there, strange as it may seem, America could learn from Europe: the Netherlands, for instance, is a good model for how to overhaul disability insurance. Stemming the decline in low-skilled men's work will also demand more education reform to boost skills, as well as a saner approach to drugs and imprisonment.

Technology and globalisation are remaking labour markets across the rich world, to the relative detriment of the lower-skilled. That's why a rosier outlook for America's economy does not necessarily mean a rosy future for all Americans. Mr Obama and his opponents can help to shape the process. Sadly, they are doing so for the worse rather than the better.

Index | Leaders

The revolt in Syria

Not so easy

The uprising against Bashar Assad presents a trickier conundrum than previous Arab upheavals



THE frightening spiral of violence in Syria and the determination of its ruler, Bashar Assad, to crush peaceful opposition are a bleak reminder of how far the Arab spring still has to go before summer arrives-and how easily the region's hopeful mood could turn wintry again (see article). Syria, unlike Libya, is a hub of the Arab world. If it were to embrace a democratic future, the beneficial regional impact would be enormous. Conversely, a successful reimposition of Mr Assad's iron rule would give succour to all Arab despots. Unfortunately, the West has no simple way to ensure that the forces of good will prevail. It can help in the margins by encouraging the opposition and putting sanctions on Mr Assad's regime. But Syria is primarily a challenge for the Syrians themselves, with help from their Arab and Turkish neighbours.



Syria is a hub of influence by virtue of its geography, history and the canniness-plainly on the wane-of its leaders. It is neither rich, having only modest amounts of oil, nor especially populous, with some 22m inhabitants. Despite some tepid reforms, most of its economy remains stuck in a dirigiste impasse. Its army, though crucial to Mr Assad's survival, is not powerful in global terms, having been serially swatted over the years by its Israeli neighbour.

Yet Syria can put spokes in just about every wheel in the Middle East. It has been a conduit for insurgents in Iraq and it ran Lebanon as a virtual dominion for 15 years until it was ousted in 2005. More recently, it has reasserted its influence in Beirut, partly by backing a Shia party-cum-militia, Hizbullah, which in turn is sponsored by Iran, Syria's biggest friend in the region. It hosts a "rejectionist" alliance that refuses to recognise Israel and eggs on Hamas, the harshest of the main Palestinian guerrilla groups. Indeed, it has cosied up to a variety of Arab terrorist groups over the years, and has condoned and connived at the assassination of people who seek to cross it. This has brought it many enemies. Relations with Saudi Arabia and Jordan have often been frosty. With Egypt under Hosni Mubarak they were icier still. Over the years, Syria has had difficult dealings with Turkey, its beefiest neighbour, though they have improved. In short, Syria has been a regional nuisance but one that can rarely be ignored or kept down for long.

There was a time when Mr Assad promised something better. An ophthalmologist by profession, he became the heir to his father, Hafez Assad, an air force general who ruled ruthlessly from 1970 until his death in 2000, only because his abrasive older brother had been killed in a car crash. He made tentative steps towards loosening things up. He let a few dissidents out of prison, sounded ready to negotiate with Israel, put out feelers to the West and, more recently, befriended Turkey. Many Syrians seemed willing to trade stability for freedom in a turbulent region. The Assads, themselves hailing from the minority Alawite branch of Shia Islam, have mostly managed to keep a sectarian peace between various religions and denominations, with Christians, among others, enjoying security.

But this stability has always been underpinned by coercion and the threat of force. As soon as the democracy bug began to spread earlier this year, Mr Assad wavered between promises of reform and growls of repression. Once the demonstrations gathered momentum, he chose repression. Already the death toll may exceed 450, with the scale of bloodshed rising fast. Few forget that when an Islamist revolt erupted in 1982 in the town of Hama, Assad *pere* killed some 20,000 people. In the son's ruling circle the same old security apparatus remains paramount and the same grim logic seems to prevail.

Double standards?

If the West deems it right to bomb Libya in an effort to force the murderous Muammar Qaddafi from power, why not do the same to Syria? The answer is entirely pragmatic. Most Libyans inhabit a thin coastal strip connected by one big road that can be policed from the air; Syria's geography is complex. Moreover, Colonel Qaddafi is far more isolated and derided by his fellow Arabs than Mr Assad is. The Arab League, the UN Security Council and countless Libyans have all endorsed the Western assault on Libya. No such constellation has come together over Syria, and it is unthinkable at present for Western leaders to intervene militarily in the face of widespread local objections.

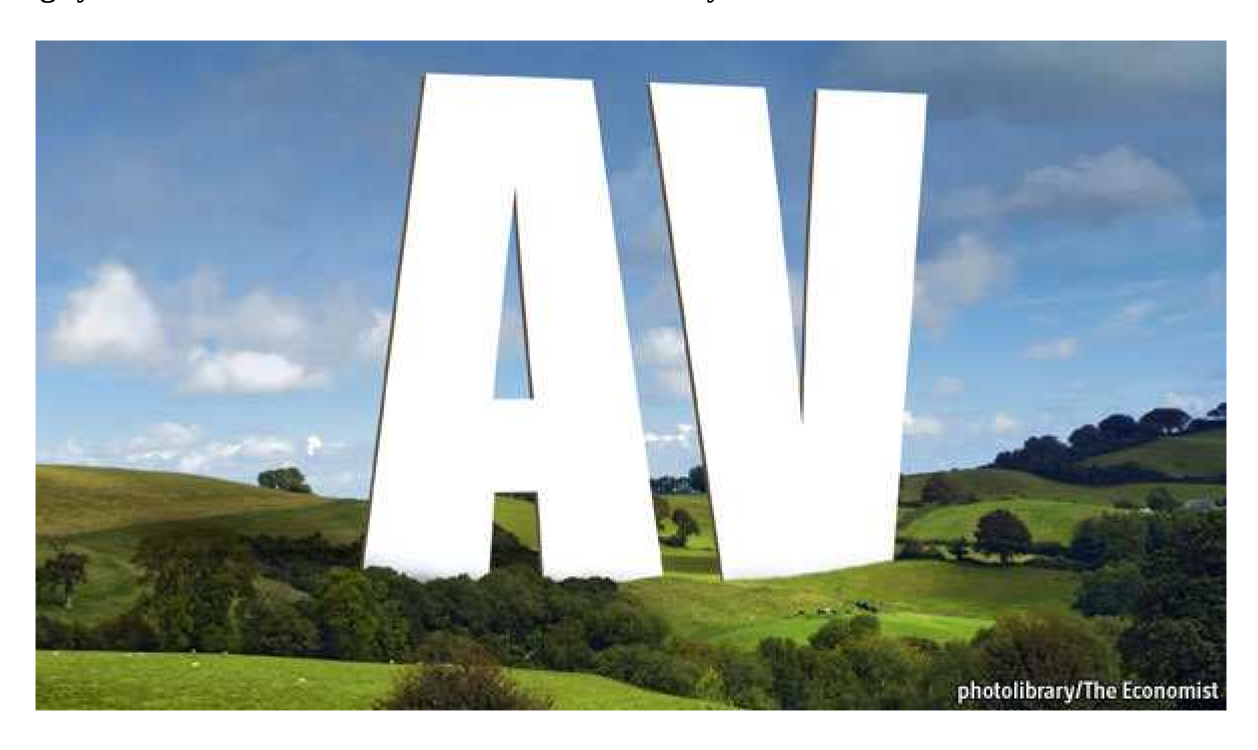
The mood in the region may change. Turkey, vaunting itself as a rising power, has the most clout: as one of Syria's main trading partners it should be pressing Mr Assad harder to call off the tanks and give his people a proper electoral choice. Egypt, renewing its authority as a regional giant, should do the same. If the Arab spring is to flourish, the Arabs must lead the way. There may be time, yet, for Mr Assad to back down. If he did, the Arab spring really might turn into summer.

Index | Leaders

Constitutional reform in Britain

Yes or No?

Britain's voting system has its flaws: the reform on offer on May 5th does not fix them



"OUR political system is broken." That blunt verdict on British democracy is not taken from a protest banner. It is the position of David Cameron's coalition, set out in the programme for government drawn up after the 2010 general election. To that bleak diagnosis, the programme adds a prescription: fundamental political reform, starting with a referendum on May 5th on whether to change the voting system used for elections to the House of Commons (see article).

This newspaper agrees that British democracy is in need of repair work. Public suspicion of politicians-though hardly unique to the British Isles-is high. Flaws in the current voting system of first-past-the-post (FPTP) have contributed to a dangerous sense that British voters have too little sway over those who govern them. We would, therefore, support a change to a better voting system. Unfortunately, the one on offer isn't.

The way things are

The current system has virtues, as well as flaws. One is simplicity: voters place a cross next to one name on the ballot, the candidate who secures the most crosses wins. It allows for ideological clarity, and thus accountability. Historically, FPTP has favoured the election of majority governments, able to defend a clear programme or face ejection at the next election. In much of Europe, where coalitions are the norm, political compromise is seen as a virtue. The very word has an unhappy ring in Britain: just now, lots of Lib Dem voters feel compromised by coalition with the Tories, and not in a good way.

Yet more than half the current MPs hold seats deemed "very safe" or "ultra safe", leaving millions of citizens feeling that their votes change nothing. And, with support for the Conservatives and Labour falling, the number of MPs elected by a minority of votes cast in their seat has risen. Above all, FPTP is not very representative, disproportionately rewarding parties whose support is geographically concentrated. That makes Britain look more divided than it really is. Today's rules punish Conservative supporters in the north, Labour voters in the south, and Lib Dems everywhere. At the general election Britain's third party picked up nearly a quarter of all votes but fewer than one in ten seats: small wonder that the Lib Dems loathe FPTP, and made a referendum on ditching it a key demand before joining the Tories in a coalition.

What Lib Dems really want is a system that would give them seats in proportion to their votes. That would leave them with a good chance of playing kingmaker in an endless series of left-leaning or right-leaning coalition governments. But because Conservatives fear that they would not win an outright majority in a proportional representation (PR) system, the Lib Dems could secure only a more modest prize: a referendum on keeping FPTP or adopting the alternative vote (AV).

Under AV voters would be invited to rank candidates on the ballot in order of preference. If after a first round no candidate had more than 50% of the votes cast, the votes of the least popular candidate would be redistributed, following

the second preferences indicated by supporters of that eliminated candidate. Rounds of redistribution continue, using third, fourth or lower preferences if needed, until someone crosses the 50% line. Along with the Lib Dems, the Labour leader Ed Miliband and affable celebrities such as Colin Firth want AV; the Conservatives and many Labour MPs oppose it.

The experience in Australia, which has used AV since 1918, suggests that it would not be a disaster. The system is not widely disliked; indeed, it is not an issue. But Yes campaigners make greater claims for AV than that. They say it would force "lazy" politicians to "work harder" by reducing the number of safe seats. Because politicians would need to seek more than 50% of votes to win, they would become less tribal.

They are right that AV would probably favour consensus-seeking, centrist candidates. A University of Essex study estimates that the Lib Dems would have scooped 32 more seats if AV rules had applied at the general election. But there would still be lots of safe seats under AV. It is not a PR system (the Lib Dem leader, Nick Clegg, used to call it a "miserable little compromise"). Indeed, in a landslide, AV can exaggerate the swing to the winning party. Many MPs would still be elected by a minority of votes cast, because the version on offer allows voters to give their favourite a "1" and stop there, turning AV into a messy version of FPTP. What's more, if there is a run-off, a carefully considered first preference carries the same weight as more tepid second or even third choices. And it encourages voters to flirt with extremists, knowing they can make centrist parties their second preference. AV is not an improvement.

Our first preference

Some Yes campaigners admit that AV has flaws but argue that changing the system once will make future changes easier. Perhaps, but not certainly so. It might exhaust the national appetite for reform. And so large a change should be undertaken only for a system that can be defended on its own merits.

For this newspaper, that system would have to be genuinely more proportional than the current one. We would not support undiluted PR, which often means party barons choose who forms a government, and (as in Israel and Germany) hands too much power to small parties. But a dose of PR, to elect, say, a fifth of MPs, would go a long way towards correcting the current system's unfairness-especially if the top-up MPs were selected on a regional basis. In Scotland, where over 40% of the seats are chosen this way, there has been a string of minority or coalition governments. We would stick with FPTP for all but 20% of the seats to increase the likelihood of strong, accountable governments. Call the combination "FPTP Plus".

For supporters of constitutional reform, such as this newspaper, these are good times. The previous government introduced a freedom of information act. An overhaul of the House of Lords is under way. But this referendum is a disappointment. AV would not be a disaster, but it would not be an improvement either; and although we are reformers by instinct, we do not believe in change for change's sake. *The Economist* would therefore vote No.

Index | Leaders

Cloud computing's growing pains

Break-ins and breakdowns

The lessons from Sony's big security lapse and Amazon's cloud-computing outage



IT COULD turn out to be the biggest breach of data privacy since the advent of the internet. Sony admitted this week that hackers had stolen personal information, possibly including credit-card details, of many of the 77m-plus users of its online-gaming and entertainment networks. The Japanese company did not admit the full extent of the potential risks to its customers until nearly a week after it had taken its PlayStation Network off air, though it insisted that it had done so as soon as it realised how serious the intrusion into its systems had been.

Amazon, an American online retailer and provider of "cloud computing" services, has also suffered a lengthy breakdown at one of the giant server farms whose storage and processing facilities it rents to other companies. The two lapses, though unconnected and different in nature, have raised the question of whether customers can really trust the basic idea behind the cloud-that you can buy computing services from the internet, just like gas or water from a utility (see article).

Sony's security breach is particularly embarrassing because it wants to position its PlayStation console as an entertainment hub capable of delivering films and music over the internet, in addition to video games. An entertainment one-stop-shop of this nature will appeal to consumers only if it is secure and reliable; a DVD, after all, does not suddenly refuse to play for a week. Sony also failed to encrypt some of the personal details of its customers-an elementary error for a company that prides itself on its technological prowess. In Amazon's case, the problems were caused by a glitch that took longer than expected to resolve, affecting the operations of several internet firms (including Reddit, Quora, HootSuite and Foursquare) that use its services, and denting the reputations of all concerned-as well as that of the cloud itself.

But building a totally secure and reliable cloud-based system, or indeed any other kind of computer system, is impossible. More break-ins and breakdowns are inevitable. What matters is that service-providers, consumers and corporate clients all learn the right lessons from the events of the past week.

Cloud-cuckoo-land

For providers of online services, the main lesson, beyond the obvious need to adhere to basic principles of computer security, is the importance of being open with customers when things go wrong. This seems to be something that is particularly difficult for Japanese firms, with their consensus-based decision-making and a reluctance to tell superiors when problems arise. Sony remained tight-lipped when it should have been forthcoming. Amazon has also been criticised for providing only a small amount of rather vague information about the outage. One user gave the company an "F" for communication this week; another complained that its updates seemed to have been written by its lawyers rather than its engineers.

Consumers, meanwhile, should ensure that they do not use the same passwords on multiple online systems, which exposes them to the danger that a compromise in one system will enable the same credentials to be used to access another. Being able to manage passwords and spot "phishing" e-mails that try to trick recipients into revealing bank details and other information are now important life skills, like it or not.

The lesson for companies let down by Amazon's outage is that they need to be aware of the risks of being too reliant on a single supplier, with cloud computing as with anything else. Firms that use cloud-based systems should be looking at ways to distribute work across multiple providers. Although the cloud has many benefits and is generally quite reliable, it is clearly bound to produce the odd thunderstorm.

Index | Leaders

Canada's general election

Groundhog day

That Stephen Harper is the least bad option is an indictment of Canadian politics



ON MAY 2nd, for the fourth time in seven years, Canadians will go to the polls. On the previous two occasions the outcome has been a Conservative minority government, under Stephen Harper. Both the Conservatives and their main opponents, the Liberals, hoped to break the stalemate this time. Yet if opinion polls prove correct, it will be Groundhog day for Canada, with the Conservatives again the largest party but lacking an overall majority. There is one possible twist: the left-wing New Democrats are enjoying a late surge of support, especially in Quebec, and might secure more seats than the Liberals. Even if they do not, the two parties might conceivably join forces in an anti-Tory coalition. Then again, the NDP surge may yet help the Conservatives by splitting the opposition vote more evenly (see article).

Mr Harper's record is in some ways impressive. Canada sailed through the recession better than any other large developed economy. True, that was mainly because of Asian demand for Canada's natural resources, as well as the strong fiscal position and well-regulated banking system Mr Harper inherited from the Liberals. But he deserves credit for having administered a limited and effective fiscal stimulus, and for promoting investment through corporate tax cuts. Employment is higher now than when the Tories took over in 2006.

But there are some serious blots on Mr Harper's record. He is a dinosaur on climate change. He has batted away all criticisms of the Albertan tar sands, where oil extraction is an especially dirty business, and placed his faith in carbon capture and storage, an unproven and expensive technology. Even some Albertan oil bosses favour greener rules. But the biggest worry about Mr Harper is his contempt for the rules of Canadian democracy. Since the previous election he has twice prorogued parliament for disgracefully lengthy periods, the second time to avoid awkward questions about whether his officials lied to the house about the treatment of detainees in Afghanistan. He has also got rid of watchdogs whom his government found too independent and generally tried to hand over as little information as possible to the public.

For these reasons *The Economist*, like many Canadians, would be relieved if there were a better alternative to Mr Harper. But there is not. On paper, Michael Ignatieff, the Liberal leader, looks attractive. The Liberals hoped that Mr Ignatieff, a journalist and writer who lived abroad for three decades, would bring them a scatter of stardust. Instead he has struggled to adapt to politics, and has plodded overcautiously. Fewer tax cuts, more money for health care but without reforms, and focus-group-inspired handouts for niche voters hardly add up to a compelling alternative vision. His party is still struggling, with many Canadians unable to erase the memory of a string of corruption scandals that disfigured the later years of the Liberals' generally successful stint in power from 1993 to 2006. Indeed Mr Ignatieff's weakness raises the unattractive prospect of a Liberal coalition with the NDP, an old-fashioned labour party led by Jack Layton, who has opportunistically opposed VAT and courted Quebec separatists.

Some day my prince will come

Coalitions and minorities may be the new norm in a country which now has four substantial parties. All things considered, Canada has not done too badly under Mr Harper's minority governments. But sooner or later it will need a prime minister with a majority who can tackle difficult issues such as an ageing population, reforming a good but expensive health-care system, and coming up with a policy on climate change. If none of today's leaders is capable of convincing Canadians that they deserve a clear mandate, then they should yield to others who might.

Index | Leaders

Poland

A place at the top table

Poland is flourishing. But to be remembered as a great leader, Donald Tusk needs more ambition



GOOD fortune and Poland are rarely coupled. But the biggest of the European Union's newish members now has something to celebrate. It survived the financial crisis with barely a blip-its economy even grew in 2009 when most others shrank (see article). It is the unquestioned diplomatic and economic heavyweight of its region. In July it takes over the rotating presidency of the EU. And in October Donald Tusk is set to become the first prime minister in Poland's history to win re-election after a full term in office, bestriding a political landscape that is pleasingly normal (see article).

The beatification of Pope John Paul II this weekend is a reminder of the role of that great Pole, and of his homeland, in toppling communism. Other, less pleasant ghosts of the past are fading. People no longer equate Poland with the tantrums, paranoia and idiosyncrasies of the government led by Jaroslaw Kaczynski. Still less do they associate the country with chaos and backwardness, or with futile wartime heroics. Ties with Russia and Germany, the two historic menaces, have never been better.

Yet Poland must raise its game to regain its rightful place at Europe's top table. That must start with the economy, which despite a good recent run still exhibits ominous weaknesses. Mr Tusk must get a grip on the public finances. A big budget deficit (7.9% last year) may have helped in the downturn, but it now reflects fiscal incontinence. Poland musters a paltry 0.7% of GDP for research and development, half the Czech level (the EU target is 3%). If Mr Tusk can dump his coalition partner, the smallholders' People's Party, he will find it easier to prune wasteful subsidies for farmers. He also needs to

deal with the inherited plague of early retirement, which gobbles cash and wastes talent. Unemployment remains high, and a shocking 1.5m Poles of working age are not economically active.

All Polish governments promise reform, but few keep their word. Mr Tusk's government has done well in flattening taxes-but Poland still scores shamefully badly in the World Bank's ranking of ease of paying them, at 121st place, behind Russia. In an index of business-friendliness, Poland is in 70th place, worse than its autocratic and backward neighbour, Belarus. Poland's entrepreneurs have wrought marvels in these hostile conditions. They would do much better in a system that allowed them to unleash their talents fully.

Mr Tusk's government could do more abroad, too. The "reset" of relations with Russia has been a success, but Poland's relations with its smaller neighbours like Lithuania are too often scratchy. The government has been feeble over north Africa. Mr Tusk says he wants to provide humanitarian aid and political advice. But the excess of waffle and the lack of specifics stand out in contrast with Poland's ready support for the missions in Iraq and Afghanistan. This comes oddly from a country that advocates a stronger EU foreign and security policy.

More ambition, please

The common factor behind Poland's sluggishness over economic reform and its excessive caution abroad is a lack of ambition. Since his first bid for power in 2005 Mr Tusk has come a long way. He has gained authority in his own party, Civic Platform, which has trounced its opponents at every turn. Never in Poland's troubled history has a leader been better placed to realise his country's true potential. But, having secured power, Mr Tusk has done only half the job.

Index | Letters

Letters

On pensions, Libya, GPS, gendercide, extradition, robots

Letters are welcome via e-mail to letters@economist.com

Paying for pensions



SIR - Your special report on pensions ("Falling short", April 9th) omitted the most important reform of all: removing the state from the pension-management and health-care industries entirely. Retirement may now be seen as "a mark of a civilised social democracy", but most of that civility has been achieved by baby-boomer and pre-boomer generations who legislated for themselves a transfer of wealth from future generations. Imagine how much better off and more prepared for old age current workers would be if they had not been burdened by the moral hazard-and waste-that state pension and health care promises have created.

Many Chinese save upwards of 40% of their income because they know that they cannot rely on the state to provide sufficient pensions, health care or education for their children. In doing so, they are not living an uncivilised life, nor are they endangering the world economy. Rather, they are securing their futures with the pride and productivity that comes from self-reliance, the way it used to be in more-developed nations.

Mark Galasiewski
Gainesville, Georgia

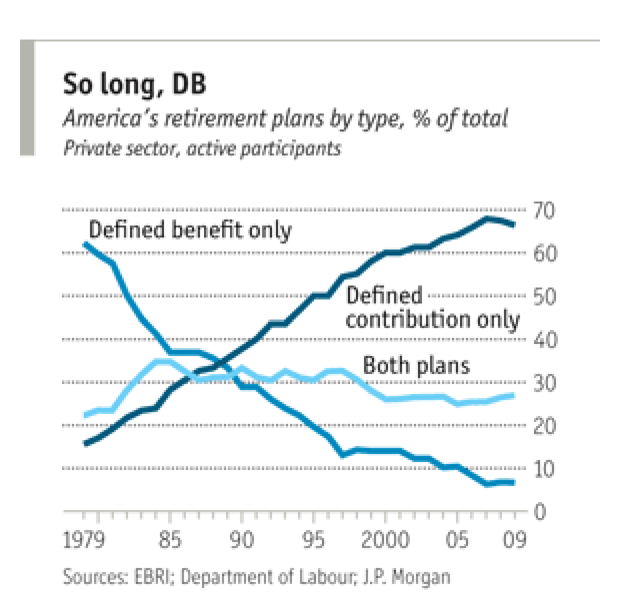
SIR - Your chief solution to the pensions problem was for those most immediately affected, who have worked their entire adult lives, to work longer. Given that the top 1% of households in America possess approximately 35% of the nation's total wealth, I think a little redistribution-ie, taxation-would be a fairer and more effective fix.

Page Nelson
Cambridge, Massachusetts

SIR - Why does everybody have to retire at the same age? As you pointed out, some people flower late, and in many jobs breadth and depth of experience adds value. Equally many have to hang on to employment they hate (and are consequently no good at); while in between some people might like to leave their full-time jobs early (thereby creating vacancies) and do low-paid but socially valuable part-time work.

If all pensions were made legally transferable, it should be possible to calculate the actuarial value of everyone's pension rights for each year from, say, 55 to 75, allowing us to trade-off money and leisure to fit our individual circumstances. Might this not be a more democratic and socially acceptable policy objective?

Alan Wolfe
Sevenoaks, Kent



* SIR - Why should younger taxpayers be forced to pay for large tax and benefit perks to people over a certain age? Those who want to take a 20-year holiday from work should save and pay for it themselves, without subsidy, regardless of age. And elderly people unable to work should get the same benefits as young people and middle-aged people unable to work.

Dan Dennis
Reading, Berkshire

SIR - You said, "It seems odd that private-sector employers can restructure their pension plans and public-sector employers cannot." Put another way, you might say: "It seems odd that state and federal laws do not allow public-sector employers to change the rules of the game after an employee is hired and makes long-term financial plans based on promised future benefits, but allow private-sector employers to do so at will."

The public sector is run on tax money. Most private-sector employees understand this and many are married to a public-sector worker. Private-sector jobs generate more income in the short term whereas public-sector jobs provide a minimal amount of financial stability in the long term. It's a good combination.

Roger Brewer
Honolulu, Hawaii

* SIR - While private-sector union negotiators face representatives of corporations-people with a strong interest on behalf of their shareholders who will foot the bills-in wage and benefit negotiations, who do public-sector union negotiators face? In America it is politicians whose prime interest is re-election. In return for generous campaign donations and get-out-the-vote support received from those unions, they grant generous wage rates and benefits, but they don't have to pay the bills. Who supports the people who pay the price of those extravagant public-union benefits?

Spencer M. Higley
Edmonds, Washington

SIR - Life expectancy has not increased equally across the socioeconomic divide. According to the Social Security Administration, since 1977 life expectancy at 65 has risen by six years for male workers in the top half of the earnings distribution, but it has only increased 1.3 years for American men in the bottom half. An across-the-board increase in the retirement age will mean that many of those who work the most unpleasant and least remunerative jobs will not live to enjoy any retirement time whatsoever.

Christopher Zbrozek
Detroit

SIR - There is one solution to the problem that would please corporate and government leaders: along with having people work longer for less money, have retirees die sooner. If he were alive, Jonathan Swift would approve, I'm sure.

Gary Fleming
New Orleans

Unite the nations



SIR - Britain and France are trying to use a UN resolution intended to protect civilians to effect regime change in Libya ("The colonel's fake diplomacy", April 16th). Undoubtedly it would be better if Muammar Qaddafi was removed from power but the way to do it is to pass a UN Security Council resolution authorising military action for that purpose, and then send in ground troops. However there is no chance it would be approved and no one wants to send in troops, so things go on by half measures and Libya sinks further into civil-war stalemate while civilians continue to suffer.

Garth M. Evans
Vancouver

Eyes on the road

SIR - You failed to mention global positioning systems (GPS) in your article on distracted driving ("Think before you speak", April 16th). Texting should surely be defined as any significant button-pressing while driving, whether using a mobile phone or another machine, like a GPS device.

There is a new class of accident derived from "confusing the map with the territory", and increasingly these involve hitting other people (rather than the motorist driving into a bridge or river). Anything that diverts attention to within rather than outside the vehicle is a potential danger.

Michael Neugarten
Ramat Efal, Israel

Promoting girl power



SIR - Your article on India's skewed sex ratio ("Add sugar and spice", April 9th) made a compelling case for the introduction of population-planning incentives. Instead of waging a futile war on dowries, the government would do well to introduce dowry accounts. All newborn girls to parents below a certain income threshold would be given a relatively small amount of money each year during a five year ramp-up period (say $40 equivalent per year, amounting to $200 in total per child) that would be administered by select banks for a minimum of 15 years at preferential interest rates.

Thus, as India would build a nationwide identity databank, there would be an incentive for poorer families not to kill off girls, while at the same time encouraging banks to invest in longer-dated assets, such as infrastructure.

Robin Willi
Cham, Switzerland

Double standards

* SIR - Your article about America's handling of Cuban-born terrorist, Luis Posada Carriles, ("Catch him if you can", April 16th), read like an opinion column. First you found it astonishing that a suspect can be acquitted in American courts or that a judge can rule evidence inadmissible. Such things tend to go with the rule of law. This may puzzle the governments of Cuba and Venezuela, but it should not be surprising for your writers. There are rules of evidence in American courts which apply to all defendants, even the guilty.

Second, you suggested that America should extradite the defendant to Cuba, where such things as rules of evidence and juries coming up with verdicts that do not suit the prosecutor are unlikely to be a problem. Absolutely not. Extradition is a process by which countries which value the rule of law can aid each other in supporting it.

Next you will be suggesting "extraditing" Libyan rebels to Tripoli.

Quentin Langley
Woking, Surrey

Humans v robots



SIR - Perhaps Schumpeter is too upbeat about the value of robots (April 2nd). They have replaced humans on assembly lines at all levels of skill and dexterity, and some of that is good. But they have also taken many low-tech jobs that kept people employed-many now permanently without work. Robots do not pay taxes, buy homes, cars or have (expensive) children to support and educate, nor do they create local wage multiplier effects.

Rainer Brocke
LaFayette, New York

SIR - Schumpeter reminded me of the spectacular ceremonies before the 2008 Chinese Olympics that had humans acting like robots. In 2012 I hope that the British will have robots acting like humans: doing a scene from an opera, a ballet, or perhaps Shakespeare.

Dean R. Freitag
Cookeville, Tennessee

* Letter appears online only

Index | Briefing

Constitutional reform

All change

Britain is on the verge of constitutional upheaval



THIS may seem an odd moment to make the claim, but Britain is a country in the grip of a modernising frenzy. The outside world may see an unvarying kingdom of royal weddings, golden carriages and clip-clopping Horse Guards, with a young prime minister drawn from the old Establishment. But strip away the pageantry, and David Cameron's Conservative-Liberal Democrat coalition is proposing radical changes to the constitutional order.

A national referendum on May 5th and months of parliamentary wrangling lie ahead. But if all the changes being proposed by the coalition come to fruition, British democracy could look and feel very different by the next general election, set by the coalition for May 2015.

Depending on the outcome of the referendum, that general election may be held using a new voting system: supporters of change call it the biggest shake-up since votes for women in 1928. Voters are to be asked to choose between keeping the winner-takes-all system of first-past-the-post (FPTP) and moving to the alternative-vote (AV) method, in which voters rank candidates in numbered order of preference. Under AV, if no candidate wins more than 50% of voters' first preferences, the least popular candidate is eliminated and the second preferences of those who voted for him are distributed. The process continues, redistributing third, fourth or lower preferences until someone crosses the 50% line.

The House of Commons is also set to shrink from 650 to 600 seats, and almost every constituency will have new boundaries. With few exceptions, the seats will be more uniform, with around 76,000 voters apiece-a change that will mean many seats straddling county borders for the first time, and the merger of many small seats, notably in Wales. The next parliament might also have a fixed term of five years, ending the privilege enjoyed by British prime ministers of choosing the date (within five years) to call a general election.

Under another set of proposals due to be unveiled in May, the present House of Lords is earmarked for abolition. Its 792 serving members are to be replaced, after a transition period, by a semi-elected house (possibly called a Senate) of as few as 300 members. According to press leaks, 80% of its members would be elected by a form of proportional representation (PR)-ie, a system in which a party that polls a fifth of the votes wins roughly a fifth of the seats-for single terms of 15 years. The remaining 20% would be appointed, in an awkward trade-off between democracy and the expertise brought to Lords debates by retired military chiefs, judges, scientists and other grandees who may be unwilling to run for party-political office. The 92 remaining hereditary peers would be ejected from Parliament, as would most (but not all) of the 25 Anglican bishops and archbishops who sit in today's House of Lords.

Many peers expect their elected successors to be much more assertive towards the House of Commons, straining old conventions that the Lords should bow before the primacy of the elected chamber. Government ministers play down the prospect of clashes, saying there is no reason why the relationship should alter. That seems a stretch. At the least the new relationship will probably have to be written down in statutory form. And then, notes Vernon Bogdanor of King's College London, Britain would be "halfway to a written constitution". That marks another break, this time with the tradition that Britain's constitution exists merely in virtual form, scattered across the statute books and buttressed by precedent and convention.

Will all these changes happen? Previous attempts at bold reform have often been watered down. Ordinary voters may determine part of the answer. Plans for reforming the upper house are-like plans for AV-Liberal Democrat ambitions, and are the personal responsibility of Nick Clegg, the Lib Dem leader and deputy prime minister. If May 5th sees a series of defeats for the Lib Dems-notably in the AV referendum, but also in elections held the same day to local councils and devolved parliaments-Mr Clegg will need something to cheer up his party. If, on the other hand, AV is approved, furious Tory MPs may demand that the House of Lords be left alone.

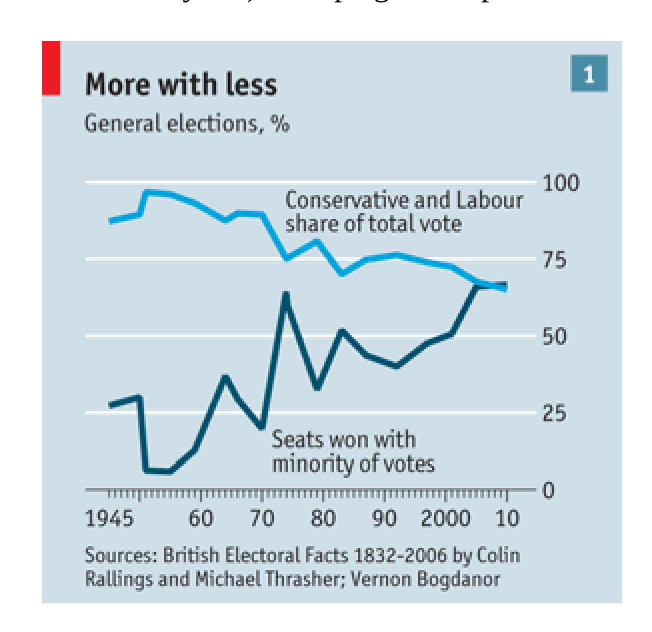
Even pro-reform politicians admit that many knotty issues would have to be resolved before a Senate could rise from the ashes of the House of Lords. If some members are appointed, will they have less legitimacy than elected colleagues? If a few Anglican bishops are allowed to stay, what about leaders of other faiths? And will today's peers vote for their own eviction? The 2010 coalition agreement talks of "grandfathering" to allow current peers to remain for some time. The terms of that transition will be considered by a joint committee drawn from both houses of parliament, but "most change is evolutionary in this country", says the minister soothingly. Senior peers talk of proposals for giving ejected members a soft landing. One proposal would offer retired peers associate membership, including the right to return and visit the House of Lords for tea.

Unfinished business

With so many economic headaches, it may seem puzzling to find the government so focused on constitutional change. Part of the explanation lies in unfinished business. The years of Labour rule, from 1997 until 2010, were a time of frequent (and frequently rushed) alterations to the ancient, patched fabric of Britain's constitution. Scotland, Wales and Northern Ireland were given their own devolved governments and parliamentary assemblies, with (depending on the region) more or less sweeping powers over everything from schools and health care to transport, housing and policing. The ancient office of Lord Chancellor-formerly the head of the judiciary, presiding officer of the House of Lords and a cabinet minister all at once-was broken into three. A Supreme Court of the United Kingdom was established and hundreds of hereditary peers kicked out of the Lords. London gained a directly elected mayor, as did a clutch of other local authorities and boroughs. Forms of PR were introduced for elections to the European Parliament, the new devolved regional assemblies, the Greater London Assembly and for the direct election of those mayors. But several democratic flaws were left unfixed.

Political leaders say they are responding to public demands to mend a system that is "broken". They are right that trust in politicians has collapsed, notably after a string of revelations about MPs and peers caught fiddling their expenses in the last parliament (leading to prison for some). Fully 40% of voters told the latest British Social Attitudes survey that they "almost never" trust any government to put the national interest first. But alas, several of the constitutional fixes on offer are designed to serve the interests of those in power.

The May 5th vote on electoral rules will be Britain's first national referendum since 1975 (on joining Europe). Outside the Westminster village, few voters would have chosen arcane electoral reform as the subject for such a poll. A survey conducted on April 15th-17th by ICM, a pollster, found only 50% promising to vote (dropping to 44% in areas like London, where there are no other elections on May 5th). Campaigners expect actual turnout to be still lower.



Among the professional political classes, constitutional activism has been spurred by a growing sense that FPTP is unfair. As an electoral system, it offers ideological clarity and accountability, but it is not very representative, giving nothing to losers even with substantial support. This failing was less grating when only two parties contested most seats. In 1951 almost 97% of those voting supported Labour or the Conservatives; in 2010 only 65% did (see chart 1). In parallel, the splintering of the vote has led to a sharp rise in the number of MPs elected by a minority of votes cast in their seat: from a few dozen a half century ago to 433 out of 650 MPs last year. At the 2010 election in Norwich South-a three-way marginal where the Greens polled well in fourth place-the Lib Dems won with just 29.4% of the vote.

It is commonly said that the current system is tough on smaller parties like the Lib Dems, but that is not quite right: some very small, ultra-regional parties thrive on it, for instance in Northern Ireland. But FPTP is brutal to parties with diffuse geographical support. The Tories in Scotland won about one in six votes at the last general election, but got just one of 59 Scottish seats at Westminster. It is the same for Labour in southern England; it polled lots of home counties votes but holds just ten of 197 seats outside London. FPTP hurts the Lib Dems and smaller parties-such as the Greens or the extreme-right British National Party-all over the country.

Yet politicians are quite capable of ignoring even glaringly unfinished business if it suits them. The key explanation for the current frenzy of political reform is the existence of Britain's first full coalition government since the second world war.

The Lib Dems have long hated FPTP. In the 2010 general election, one Lib Dem MP was elected for every 120,000 Lib Dem votes, one Tory MP for every 35,000 Conservative votes and one Labour MP for every 33,400 votes for that party. The Lib Dems really want a form of PR. Under PR, most parliaments would probably be hung, and Lib Dems could dream of playing a pivotal role in endless coalitions.

For their part, the Tories have traditionally disliked the idea of PR and indeed coalition government, but have also resented the pro-Labour bias in the current system of voting at general elections. Studies led by Ron Johnston of Bristol University show that if Labour and the Conservatives had won identical shares of the national vote in the last four general elections (and abstentions and other votes had remained unchanged), Labour would still have romped home with scores more seats than the Tories: in 2010 the "bias" was 54 seats.

Conservatives tend to ascribe this bias almost wholly to the fact that Labour-held seats usually contain fewer registered voters than Tory ones. Between boundary reviews, that gap tends to grow inexorably, due to long-term population shifts away from (Labour-leaning) inner cities to (Tory-leaning) suburbs. This explains why Tories typically push for frequent reviews of constituency boundaries, and Labour resists.

In fact, constituency size is only one factor favouring Labour. More important is that Conservative seats are often super-safe, with many more Tories turning out to vote than are needed to secure victory: Labour votes tend to be spread about more efficiently. Still, the Tory desire for new constituency boundaries and the Lib Dem hatred of FPTP gave the parties the basis for a deal, agreed during five days of coalition negotiations in May 2010. The Lib Dems would support the redrawing of constituency boundaries (and fixed-term parliaments, another longstanding goal). The Conservatives would support a national referendum on whether to move to AV. Killing off FPTP quickly became a totemic goal for many rank-and-file Lib Dems, who are not enjoying coalition with the Tories. Few Lib Dems are great fans of AV, a system that Mr Clegg once called a "miserable little compromise" before accepting it as a "baby step" towards PR.

The Tories have their prize already: a plan to redraw constituencies has passed into law, and boundary commissioners have been told to complete their work by October 2013. Critics of the whole process (notably MPs likely to lose safe seats) predict a future of "homogenised" constituencies ignoring historic community boundaries, weakening the bonds between MPs and voters. Enthusiasts say today's disparities are simply anti-democratic: the average English constituency contains nearly 72,000 voters, whereas the average Welsh seat holds 56,500, and Scottish and Northern Irish ones lie somewhere in between.

Taking the strain

The referendum on whether to adopt AV has strained the coalition between the Conservatives and their Lib Dem partners as never before (the Labour Party is divided on the issue). Though the fight is presented in terms of democratic high principle, venom has been introduced because naked interests are at stake. The ideological meeting of minds between Mr Cameron and Mr Clegg-a liberal conservative working with a conservative liberal, in the happy phrase-making of Downing Street insiders-has been chilled by the realisation that the AV fight is a zero-sum game for the pair. A No vote would leave Mr Clegg having to explain to his party just what they gain from coalition with the Tories. Meanwhile, many Conservatives fear that a Yes vote might bar their party from ever winning a working majority again.



For both Clegg and Cameron, the AV fight is a zero-sum game

Many of the mud-slinging claims of both camps, though, fall apart under scrutiny. Modelling data from previous elections, the New Economics Foundation, a think-tank, suggests that AV would merely trim the number of safe seats, so that 16% rather than 13% would change hands at a typical election. For all the Yes camp's talk of fairness, the 1998 Jenkins commission on electoral reform concluded that, in a landslide election, AV exaggerates the swing to the winning party: in 1997, Labour would have won 452 seats rather than 419. Nor would AV eliminate tactical voting. AV allows supporters of small or fringe parties to cast a first-preference vote for their favoured candidate, confident that their second preference will probably be in play and hence a matter for tactics.

That does not mean fringe parties are easily elected under AV, as some No campaigners claim. Extremists are unlikely to pick up enough lower-order preferences from other rivals to get over the 50% line. But AV can result in large hauls of first-preference votes for minor parties. One plausible effect of moving to AV in Britain would be hefty first-preference votes for small parties such as the anti-European United Kingdom Independence Party, but without a corresponding haul of Westminster seats. Demands to move from AV to a full PR system would surely follow.

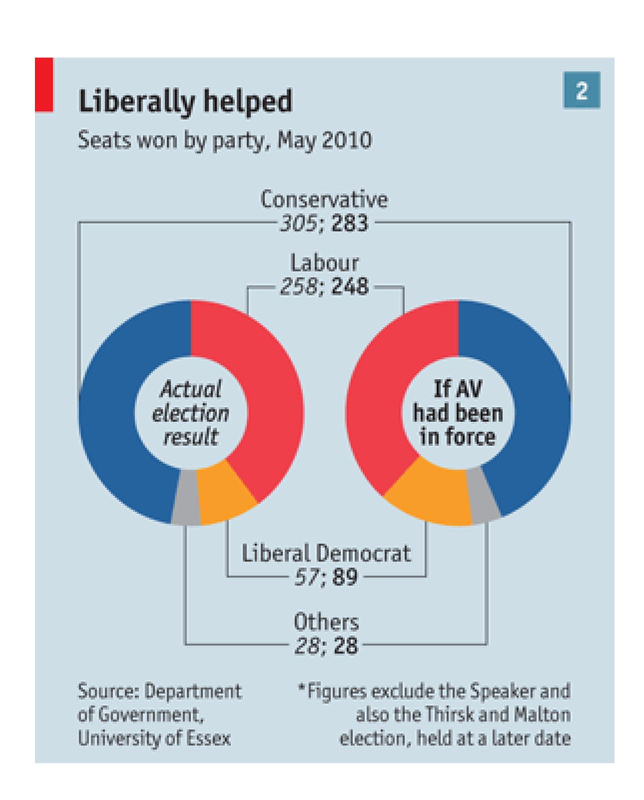
Other countries, however, use AV without ill effect. By holding primaries in which one candidate has to win over half the vote to avoid a second round, many states in America operate a variant of AV. France also has a two-round system designed to ensure that the ultimate winner has the backing of a majority of the voters.

Australia, Papua New Guinea and Fiji use AV in parliamentary elections, and Ireland uses it to elect its president. In Australia the voting system is utterly uncontroversial. During the 93 years that AV has been in use (for the lower house, and for state elections; the Senate is elected by proportional representation), it has produced conservative governments for about two-thirds of the time, Labour governments for one-third; hung parliaments, though Australia has one at the moment, are unusual. The system is widely popular.

It is not, however, a form of proportional representation, and can sometimes be less proportional than the current system. It does nothing to fix the problem of a divided Britain, in which FPTP leaves the left artificially dominant in Scotland and Wales, and the Conservatives unduly dominant in England.

Most damagingly to supporters of AV-for it undermines their core argument-it would not even stop MPs being elected by a minority of votes cast. The version of AV used in Australian federal elections obliges voters to rank all candidates in order. The version on offer in Britain would allow voters to give their favourite candidate a "1" and stop there, behaviour known to psephologists as "plumping". Where plumping is allowed (eg, in some Australian state elections), most voters do it, turning AV into a messy version of FPTP. Even where plumping is not allowed, candidates who start with the largest haul of first-preference votes usually win.

What AV really means



None of this suggests, however, that a move to AV would be without political effects. With left-leaning Lib Dem supporters angry over their party's decision to join a Conservative-led coalition, it would be perilous to predict how AV might affect future British elections. But most assume it would boost the Lib Dems. A University of Essex study based on polling after the last general election estimates that if AV rules had applied last year, the Conservatives would have gained 283 Commons seats (down 22 from their actual 305), Labour 248 (down 10) and the Liberal Democrats 89 (up 32). (See chart 2.)

Just as important, FPTP is a winner-takes-all system, emphasising the clash of competing ideas as parties seek to become the most successful on the ballot. Under AV, candidates must seek instead to secure the broadest possible support. At a

Yes campaign event in Dorset on April 11th, speakers vowed that divisive policies like Thatcher-era privatisations or the invasion of Iraq could never happen under AV.

In short, the voting system chosen on May 5th will dictate the nature of British democracy. No great public tumult of ideas called this moment of change into being. Rather, the spark came from the accidental radicalism of the British electorate who were ready to be rid of one big party, Labour, at the last election, but not ready to entrust majority rule to another, the Conservatives. In their indecision and anger at politics as usual, voters called into life something alien and unexpected: a British coalition government, with a confused, only half-understood mandate to fix the political system. The British are now living through the next step of that revolution-by-accident. They will be living with the constitutional consequences for many years to come.

Index | United States

America's transport infrastructure

Life in the slow lane

Americans are gloomy about their economy's ability to produce. Are they right to be? We look at two areas of concern, transport infrastructure and innovation

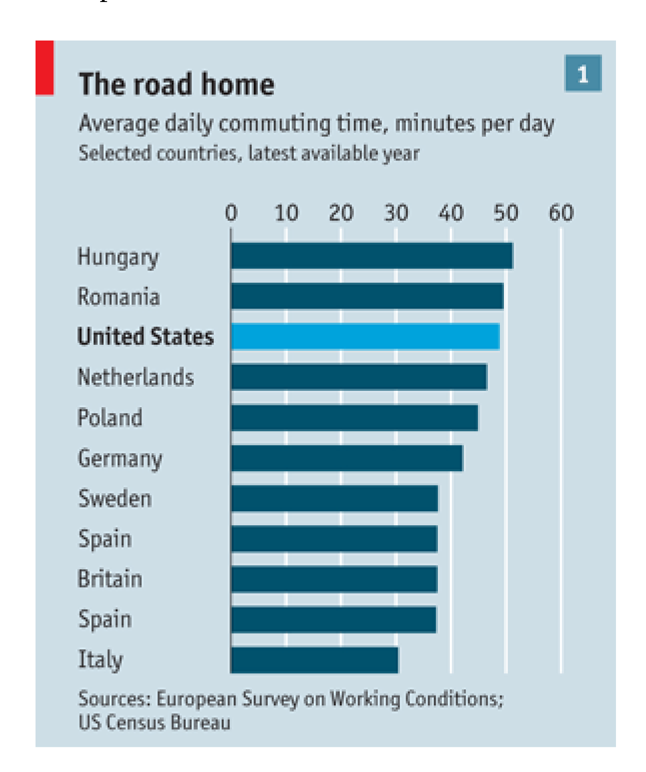


ON FRIDAY afternoons, residents of Washington, DC, often find a clear route out of the city as elusive as a deal to cut the deficit. Ribbons of red rear-lights stretch off into the distance along the highways that radiate from the city's centre. Occasionally, adventurous southbound travellers experiment with Amtrak, America's national rail company. The distance from Washington to Raleigh, North Carolina (a metropolitan area about the size of Brussels) is roughly the same as from London's St Pancras Station to the Gare du Nord in Paris. But this is no Eurostar journey.

Trains creep out of Washington's Union Station and pause at intervals, inexplicably, as they travel through the northern Virginia suburbs. In the summer, high temperatures threaten to kink the steel tracks, forcing trains to slow down even more. Riders may find themselves inching along behind a lumbering freight train for miles at a time, until the route reaches a side track on which the Amtrak train can pass. The trip takes six hours, well over twice as long as the London-Paris journey, if there are no delays. And there often are.

America, despite its wealth and strength, often seems to be falling apart. American cities have suffered a rash of recent infrastructure calamities, from the failure of the New Orleans levees to the collapse of a highway bridge in Minneapolis, to a fatal crash on Washington, DC's (generally impressive) metro system. But just as striking are the common shortcomings.

America's civil engineers routinely give its transport structures poor marks, rating roads, rails and bridges as deficient or functionally obsolete. And according to a World Economic Forum study America's infrastructure has got worse, by comparison with other countries, over the past decade. In the WEF 2010 league table America now ranks 23rd for overall infrastructure quality, between Spain and Chile. Its roads, railways, ports and air-transport infrastructure are all judged mediocre against networks in northern Europe.



America is known for its huge highways, but with few exceptions (London among them) American traffic congestion is worse than western Europe's. Average delays in America's largest cities exceed those in cities like Berlin and Copenhagen. Americans spend considerably more time commuting than most Europeans; only Hungarians and Romanians take longer to get to work (see chart 1). More time on lower quality roads also makes for a deadlier transport network. With some 15 deaths a year for every 100,000 people, the road fatality rate in America is 60% above the OECD average; 33,000 Americans were killed on roads in 2010.

There is little relief for the weary traveller on America's rail system. The absence of true high-speed rail is a continuing embarrassment to the nation's rail enthusiasts. America's fastest and most reliable line, the north-eastern corridor's Acela, averages a sluggish 70 miles per hour between Washington and Boston. The French TGV from Paris to Lyon, by contrast, runs at an average speed of 140mph. America's trains aren't just slow; they are late. Where European passenger service is punctual around 90% of the time, American short-haul service achieves just a 77% punctuality rating. Long-distance trains are even less reliable.

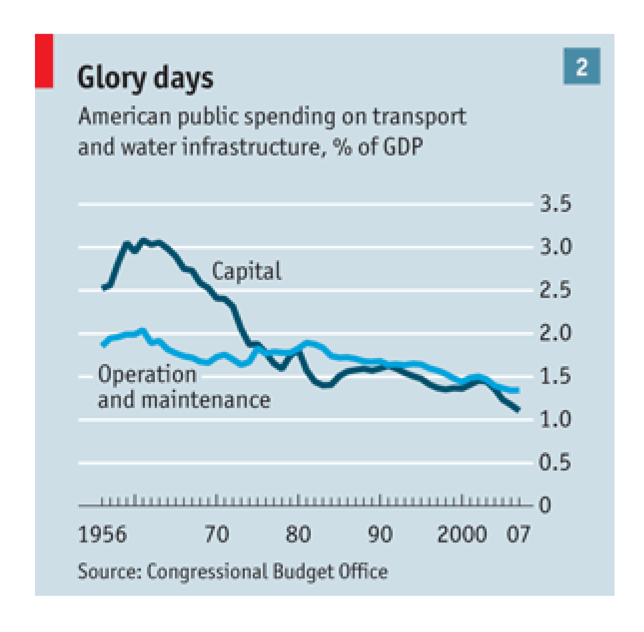


The Amtrak alternative

Air travel is no relief. Airport delays at hubs like Chicago and Atlanta are as bad as any in Europe. Air travel still relies on a ground-based tracking system from the 1950s, which forces planes to use inefficient routes in order to stay in contact with controllers. The system's imprecision obliges controllers to keep more distance between air traffic, reducing the number of planes that can fly in the available space. And this is not the system's only bottleneck. Overbooked airports frequently lead to runway congestion, forcing travellers to spend long hours stranded on the tarmac while they wait to take off or disembark. Meanwhile, security and immigration procedures in American airports drive travellers to the brink of rebellion.

And worse looms. The country's already stressed infrastructure must handle a growing load in decades to come, thanks to America's distinctly non-European demographics. The Census Bureau expects the population to grow by 40% over the next four decades, equivalent to the entire population of Japan.

All this is puzzling. America's economy remains the world's largest; its citizens are among the world's richest. The government is not constitutionally opposed to grand public works. The country stitched its continental expanse together through two centuries of ambitious earthmoving. Almost from the beginning of the republic the federal government encouraged the building of critical canals and roadways. In the 19th century Congress provided funding for a transcontinental railway linking the east and west coasts. And between 1956 and 1992 America constructed the interstate system, among the largest public-works projects in history, which criss-crossed the continent with nearly 50,000 miles of motorways.



But modern America is stingier. Total public spending on transport and water infrastructure has fallen steadily since the 1960s and now stands at 2.4% of GDP. Europe, by contrast, invests 5% of GDP in its infrastructure, while China is racing

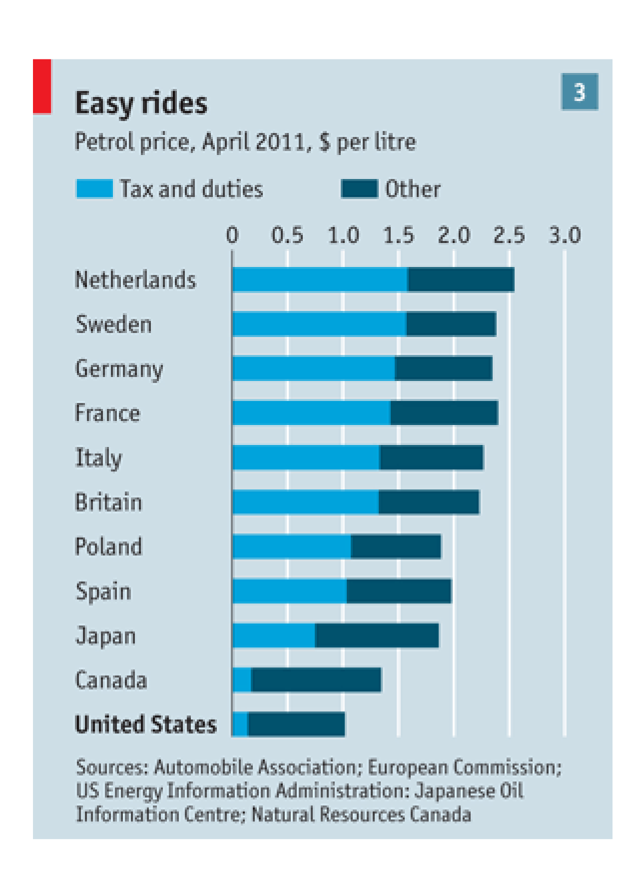
into the future at 9%. America's spending as a share of GDP has not come close to European levels for over 50 years. Over that time funds for both capital investments and operations and maintenance have steadily dropped (see chart 2).

Although America still builds roads with enthusiasm, according to the OECD's International Transport Forum, it spends considerably less than Europe on maintaining them. In 2006 America spent more than twice as much per person as Britain on new construction; but Britain spent 23% more per person maintaining its roads.

America's dependence on its cars is reinforced by a shortage of alternative forms of transport. Europe's large economies and Japan routinely spend more than America on rail investments, in absolute not just relative terms, despite much smaller populations and land areas. America spends more building airports than Europe but its underdeveloped rail network shunts more short-haul traffic onto planes, leaving many of its airports perpetually overburdened. Plans to upgrade air-traffic-control technology to a modern satellite-guided system have faced repeated delays. The current plan is now threatened by proposed cuts to the budget of the Federal Aviation Administration.

The Congressional Budget Office estimates that America needs to spend $20 billion more a year just to maintain its infrastructure at the present, inadequate, levels. Up to $80 billion a year in additional spending could be spent on projects which would show positive economic returns. Other reports go further. In 2005 Congress established the National Surface Transportation Policy and Revenue Study Commission. In 2008 the commission reckoned that America needed at least $255 billion per year in transport spending over the next half-century to keep the system in good repair and make the needed upgrades. Current spending falls 60% short of that amount.

If they had a little money...



If Washington is spending less than it should, falling tax revenues are partly to blame. Revenue from taxes on petrol and diesel flow into trust funds that are the primary source of federal money for roads and mass transit. That flow has diminished to a drip. America's petrol tax is low by international standards, and has not gone up since 1993 (see chart 3). While the real value of the tax has eroded, the cost of building and maintaining infrastructure has gone up. As a result, the highway trust fund no longer supports even current spending. Congress has repeatedly been forced to top up the trust fund, with $30 billion since 2008.

Other rich nations avoid these problems. The cost of car ownership in Germany is 50% higher than it is in America, thanks to higher taxes on cars and petrol and higher fees on drivers' licences. The result is a more sustainably funded transport system. In 2006 German road fees brought in 2.6 times the money spent building and maintaining roads. American road taxes collected at the federal, state and local level covered just 72% of the money spent on highways that year, according to the Brookings Institution, a think-tank.

The federal government is responsible for only a quarter of total transport spending, but the way it allocates funding shapes the way things are done at the state and local levels. Unfortunately, it tends not to reward the prudent, thanks to formulas that govern over 70% of federal investment. Petrol-tax revenues, for instance, are returned to the states according to the miles of highway they contain, the distances their residents drive, and the fuel they burn. The system is awash with perverse incentives. A state using road-pricing to limit travel and congestion would be punished for its efforts with reduced funding, whereas one that built highways it could not afford to maintain would receive a larger allocation.

Formula-determined block grants to states are, at least, designed to leave important decisions to local authorities. But the formulas used to allocate the money shape infrastructure planning in a remarkably block-headed manner. Cost-benefit studies are almost entirely lacking. Federal guidelines for new construction tend to reflect politics rather than anything else. States tend to use federal money as a substitute for local spending, rather than to supplement or leverage it. The Government Accountability Office estimates that substitution has risen substantially since the 1980s, and increases particularly when states get into budget difficulties. From 1998 to 2002, a period during which economic fortunes were generally deteriorating, state and local transport investment declined by 4% while federal investment rose by 40%. State and local shrinkage is almost certainly worse now.

States can make bad planners. Big metropolitan areas-Chicago, New York and Washington among them-often sprawl across state lines. State governments frequently bicker over how (and how much) to invest. Facing tight budget constraints, New Jersey's Republican governor, Chris Christie, recently scuttled a large project to expand the railway network into New York City. New Jersey commuter trains share a 100-year-old tunnel with Amtrak, a major bottleneck. Mr Christie's decision was widely criticised for short-sightedness; but New Jersey faced cost overruns that in a better system should have been shared with other potential beneficiaries all along the north-eastern corridor. Regional planning could help to avoid problems like this.



Please, not again

What is to be done?

The rehabilitation of America's transport network will be neither easy nor cheap. To make the necessary repairs and upgrades, America will need to spend a lot more. In a deficit-conscious environment, that will require new revenue. The most straightforward first step would be a rise in fuel-tax rates, currently at 18.4 cents a gallon. But petrol-tax increases are even more unpopular than deficits, and rises may prove riskier as oil prices increase.

Some in Washington would rather take their cut further away from consumers. A tax on oil, rather than petrol, could be a little easier for consumers to stomach. America's big oil producers signalled openness to a similar policy during negotiations over the ill-fated but bipartisan Kerry-Graham-Lieberman climate bill. It could return as a means to fund infrastructure.

Economists press for direct user fees. An early Obama administration flirtation with a tax on miles driven attracted little support, but some cities have run, or are thinking of running, pilot schemes. Congestion charges present another possibility. State governments have increasingly turned to tolls to fund individual projects, but tolling inevitably meets stiff public resistance. Meanwhile, Manhattan's attempt to duplicate the congestion charges of London and Stockholm failed to win the necessary political support, despite the offer of a generous federal subsidy in return for trying the experiment. An earlier attempt to auction scarce landing and departure slots at New York's three large airports faced stiff resistance from airlines and was ultimately killed.

Whatever the source of new revenue, America's Byzantine funding system will remain an obstacle to improved planning. Policymakers are looking for ways around these constraints. Supporters of a National Infrastructure Bank-Mr Obama among them-believe it offers America just such a shortcut. A bank would use strict cost-benefit analyses as a matter of course, and could make interstate investments easier. A European analogue, the European Investment Bank, has turned out to work well. Co-owned by the member states of the European Union, the EIB holds some $300 billion in capital which it uses to provide loans to deserving projects across the continent. EIB funding may provide up to half the cost for projects that satisfy EU objectives and are judged cost-effective by a panel of experts.

American leaders hungrily eye the private money the EIB attracts, spying a potential solution to their own fiscal dilemma. But there are no free lunches. To keep project costs down, the bank must offer low rates, which depend in turn upon low capital costs. That may be impossible without government backing, but the spectacular failure of the two government-sponsored housing organisations, Fannie Mae and Freddie Mac, illustrates the dangers of such an arrangement. The EIB mitigates this problem by attempting to maximise public return rather than profit. To earn funding, projects must meet developmental and environmental goals, along with other requirements. But giving the bank a public mission would invite congressional oversight-and tempt legislators to meddle in funding decisions. The right balance of government support and independence may prove elusive.

Budget crises could give a boost to public-private partnerships. Partnerships can be a useful way to screen out poorly conceived projects that are unlikely to generate the promised returns. No private firm will bid to build and operate a project that will probably fail to cover its costs through toll or fare revenue. Well-designed contracts can also improve incentives by giving the construction firm a long-run interest in the project. Infrastructure projects built through public-private partnerships in Britain and Chile, where the arrangement is far more common than in America, have sometimes, though not always, been completed more cheaply and quickly than public plans.

At the state and local level transport budgets will remain tight while unemployment is high. With luck, this pressure could spark a wave of innovative planning focused on improving the return on infrastructure spending. The question in Washington, apart from how to escape the city on traffic-choked Friday afternoons, is whether political leaders are capable of building on these ideas. The early signs are not encouraging.

Mr Obama is thinking big. His 2012 budget proposal contains $556 billion for transport, to be spent over six years. But his administration has declined to explain where the money will come from. Without new funding, some Democratic leaders have warned, a new, six-year transport bill will have to trim annual highway spending by about a third to keep up with falling petrol-tax revenues. But Republicans are increasingly sceptical of any new infrastructure spending. Party leaders have taken to using inverted commas around the word "investment" when Democrats apply it to infrastructure.

Roads, bridges and railways used to be neutral ground on which the parties could come together to support the country's growth. But as politics has become more bitter, public works have been neglected. If the gridlock choking Washington finds its way to America's statehouses too, then the American economy risks grinding to a standstill.

See article

Index | United States

Innovation

Still full of ideas, but not making jobs

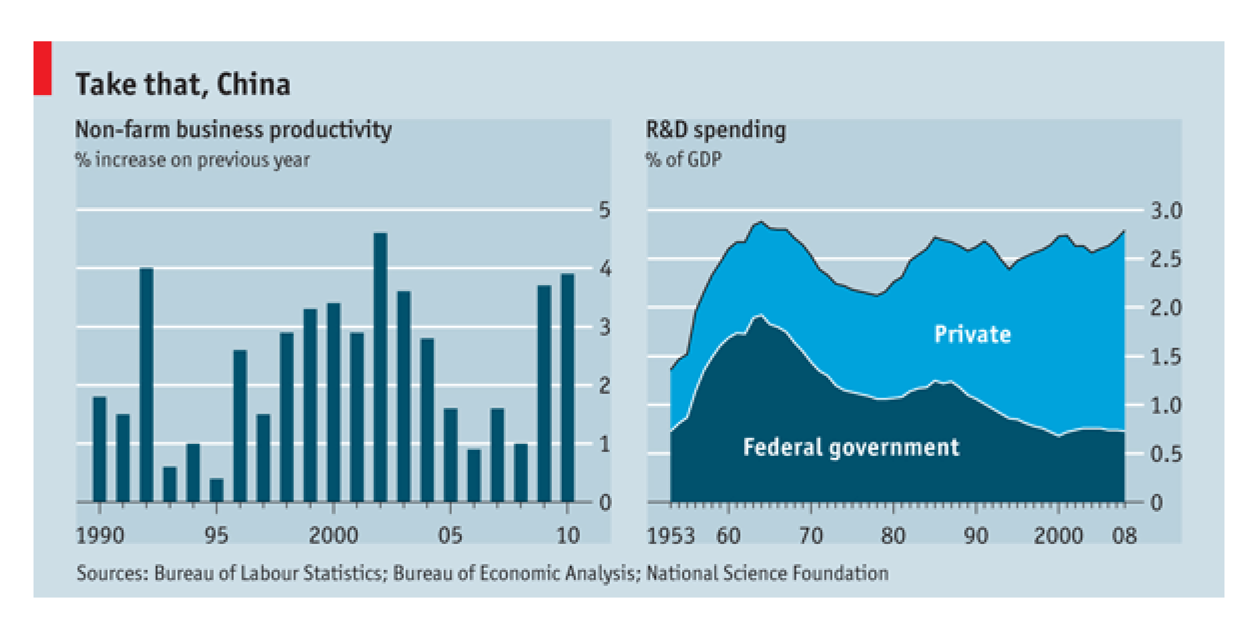
America needs to share the benefits of innovation more widely



THE economy is recovering, yet American confidence remains mired at levels more commonly seen in recessions. For that blame unemployment, petrol prices and a deeper, nagging feeling that America is in decline. A Gallup poll in February asked Americans to name the world's leading economic power. By a significant margin, they said China.

Barack Obama has exploited this anxiety. America, he has said, faces a new "*Sputnik* moment" and must "compete for the jobs and industries of our time" by spending more on research, education and infrastructure. But the notion that America is on the verge of being vanquished by cleverer, more innovative competitors is flawed. First, competitiveness is a woolly concept that wrongly supposes countries, like football teams, win only when another team loses. But one country's economic growth does not subtract from another's. Second, America's ability to innovate and raise productivity remains reasonably healthy. The problem is that the benefits of that innovation and productivity have become so narrowly concentrated that workers' median wages have stagnated.

Towards the end of the last decade American productivity began to slump, a sign to some that the pay-off from new information technology had largely been exhausted. But coming out of the recession productivity surged; it rose by 3.9% last year, the fastest rate since 2002. This was largely cyclical, since business output has recovered more quickly than hiring. Long-term productivity growth will be more modest, and its rate will depend on investment, human capital and innovation.



After collapsing during the recession, investment in business equipment has bounced back, rising 17% in the last quarter of 2010 from the figure a year earlier. Human capital is more of a challenge. Americans once led the world in educational attainment, but this is now barely rising while other countries have caught up (see article). That is a key reason why Dale

Jorgenson, an economist at Harvard University, reckons overall productivity growth will average 1.5% in the coming decade, down from 2% in the previous two.

Innovation is what preoccupies Mr Obama. He worries that the next breakthroughs in energy, transport and information technology will occur elsewhere. His advisers fret that federal research and development has fallen sharply since the *Sputnik* era. But the picture is more encouraging once private R&D is included. In 2008, the most recent year for which data are available, total R&D was 2.8% of GDP, near the top of its historical range (see chart). American patent applications tailed off during the recession, but only after doubling in the decade before.

Rob Atkinson, president of the Information Technology and Innovation Foundation, a think-tank backed by the technology industry, acknowledges that America starts from an impressive level, but says other countries are catching up as their growth in R&D and the number of their scientists and engineers gradually approaches, or overtakes, America's. China has doubled the share of its GDP devoted to R&D, although it remains below America's. In 2000 Americans filed six times as many patent applications as Chinese residents did. By 2009, however, China had surpassed the American total.

American companies have begun to build more R&D facilities in emerging countries, both in response to local government pressure and to be closer to customers. General Electric, which already has research centres in China, India and Germany, announced last year that it would put one in Brazil. This, it says, has not come at America's expense: GE plans to add two more research centres in the United States to the one it runs in upstate New York. Mark Little, the head of GE Global Research, the company's in-house research division, says putting scientists and researchers into other countries enables GE to come up with products it would not have thought of before. For rural Chinese hospitals, more used to doing things manually than in America and Europe, GE designed less-automated MRI machines.

Adam Segal, author of "Advantage: How American Innovation can Overcome the Asian Challenge", says Asia's threat to American technological leadership is overstated. China's research output is soaring, but much of it is poor-quality or based on plagiarism. Chinese companies are seizing market share in solar panels and wind turbines largely because of low manufacturing wages, says Mr Segal: "They have made no major breakthroughs in any of the underlying technologies." R&D spending in India is minuscule.

The real problem for America is not its innovative capacity, but the fact that its benefits go to relatively few. This is illustrated by a recent paper by Michael Spence and Sandile Hlatshwayo, both of New York University. They divided jobs among tradable and non-tradable sectors. Tradable sectors include manufacturing, commodities and services such as finance and engineering that compete globally. Value-added per person, a proxy for productivity, rose sharply in this sector, but the number of jobs actually declined between 1988 and 2008. The opposite was true in the non-tradable services such as government and health care. There real value-added rose only sluggishly, but employment expanded significantly. Behind this, says Mr Spence, is the trend of American multinationals to keep the highest value-added activities at home while shifting lower value-added activities, such as manufacturing, abroad.

Qualcomm, a developer of mobile-phone chips and technology based in San Diego, earns roughly 40% of its revenue from licensing and royalty fees for technology developed primarily in America, where three-quarters of its employees work. Last year it spent $2.5 billion, or roughly 20% of revenue, on R&D for such projects as developing Mirasol, an easy-to-read, energy-efficient phone display. Paul Jacobs, the company's boss, complains about high corporate-tax rates and the difficulty of getting immigrant visas for foreign-born engineers and scientists, but maintains that America is not about to be superseded as a centre for innovation. In California Qualcomm has access to the best college graduates and a pool of ideas and recruits generated by a nexus of established and start-up companies.

But Qualcomm has done no manufacturing of its own since selling its last handset plant in 2000. Although Mirasol was developed in America, the displays will be made in Taiwan, which has the skills, the suppliers and the economies of scale.

These findings present a dilemma for America's policymakers. Raising federal R&D spending and easing immigration for foreign-born PhDs would boost innovation and company successes, but would not produce many jobs. Mr Spence and Mr Atkinson would like to see government incentives aimed at strategic manufacturing sectors. But such policies have a poor track record. And in any case Congress is in no mood to pay for them, no matter what Mr Obama says.

Index | United States

The 2012 Republican primaries

Exit a heavyweight

A consummate insider bows out



No contest

IT WAS never going to be easy. To win the Republican presidential primaries, Haley Barbour would have had to convince tea-partiers to back a creature of Washington: a man who was a White House operative, party chairman and lobbyist before holding elected office. To win the election itself, he would have had to convince independents to back a southern Republican with a propensity for racially insensitive comments. Then there is his record: when he took over as Mississippi's governor in 2004, it was the country's poorest state and among its least educated; it remains so today, just months before term limits end his eight-year run. A recent Gallup poll of potential candidates gave him just 2%.

For all that, it came as a surprise when Mr Barbour announced that he would not stand for president. After four years running the Republican National Committee (RNC) and nearly eight governing Mississippi, running for president seemed a natural next step. He commanded strong support among Republican insiders, a testament not merely to his affability but also to the fact that he chaired the RNC in 1994, when the Republicans took the House for the first time since 1952, and the Republican Governors Association in 2010, when Republicans retook the House and a majority of governors' mansions.

But Mr Barbour said he lacked the "fire in the belly" for the ten-year commitment (almost two years of campaigning, followed, potentially, by eight years in office) that running for president entails. He is 63 years old. He has had a full

career, and stands to earn lots of money if he returns to the lobbying firm he founded. Neither his wife nor his son wanted him to run. Despite assembling bits of campaign machinery, he referred to his cross-country, flesh-pressing jaunts as his "death march". So, on April 25th, he bowed out.

The question now is what that means for the rest of the field. He was expected to perform well in the South; regionally his departure will benefit either Mike Huckabee, an Arkansan, or Newt Gingrich, a Georgian, if either man decides to run. He is an unlikely vice-presidential pick: the South is reliably Republican and, with Barack Obama as the opponent, needs no shoring up. His poll numbers may have been slight, but he had an immense amount of goodwill from party insiders and he could have called in favours from candidates he helped install in statehouses across the country. That insider support will go to another mainstream candidate. At this point Mitt Romney, running ahead of other palatable choices such as Tim Pawlenty and Jon Huntsman, seems the likeliest beneficiary.

Mr Barbour's departure may make Mitch Daniels, Indiana's governor, more likely to run. He and Mr Barbour have been friends since their days at the Reagan White House-good enough friends that Mr Daniels said "it would be unusual" if they both ran. Mr Barbour's departure thins the ranks of serious Republican candidates; Mr Daniels would be a suitable replacement, and his wonkishness and good-government credentials would be a welcome addition to a field in which also-rans, fringe candidates and sideshows have gathered rather too much attention.

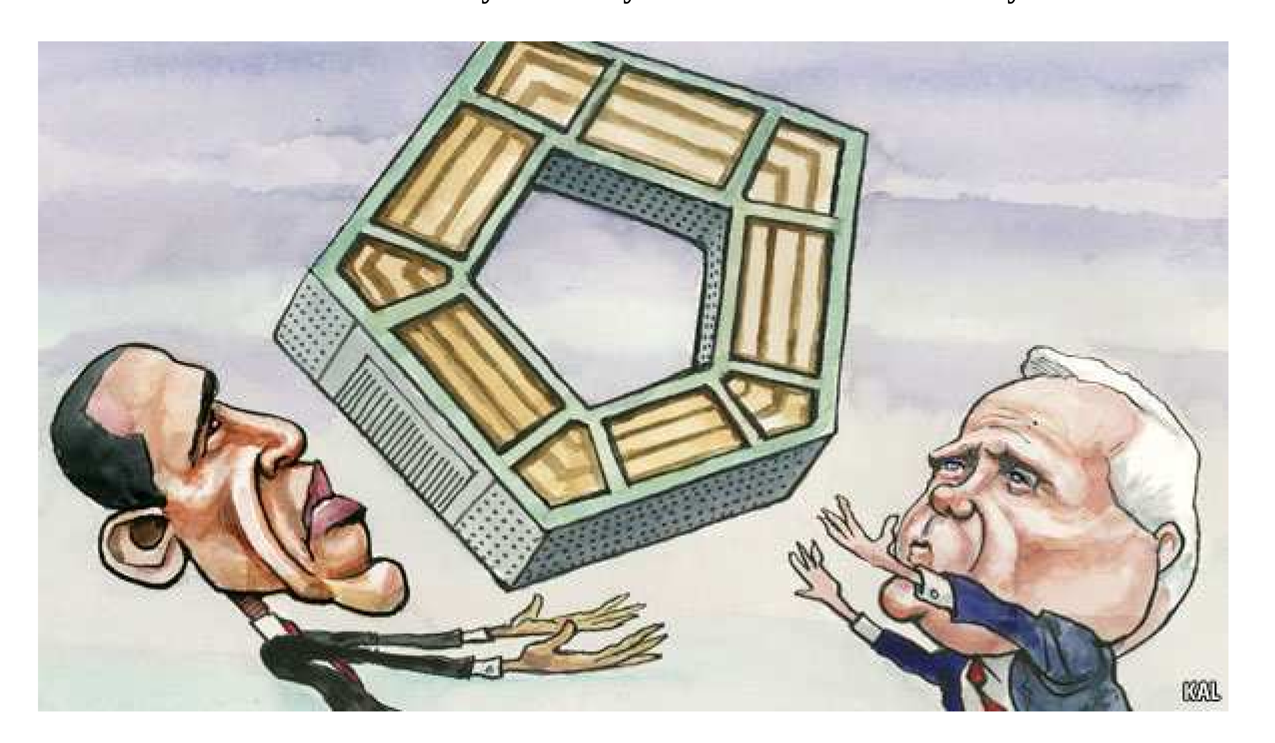
For those who prefer their politics a little less staid, though, Ron Paul, a Texas congressman who ran for the nomination in 2008, announced on April 26th that he is setting up an exploratory committee, the first step towards entering the race. Mr Paul, a libertarian who calls for the abolition of the Federal Reserve and the income tax, has a huge online following, and is good at winning straw polls among activists. But he failed to translate that into many actual votes last time.

Index | United States

Lexington

Bob Gates leaves the Pentagon

Barack Obama's shuffle of his national-security team may mean less than meets the eye



FOR a president who ran as the opposite of his predecessor, Barack Obama has conducted a remarkably similar foreign policy. When he left office, George Bush was winding down America's war in Iraq; Mr Obama is following much the same timetable. Mr Bush turned the Iraq war round via a surge of extra troops; Mr Obama is trying the same trick in Afghanistan. Mr Bush sent the CIA's drones to zap assorted jihadists in Pakistan; Mr Obama has multiplied those attacks.

Mr Bush wanted to close Guantanamo but could not answer the practical question of what to do with its remaining inmates; ditto Mr Obama. Mr Bush ratcheted up sanctions on Iran, to stop its nuclear programme, while keeping "all options" on the table; no change there.

If one person symbolised the continuity in national-security affairs, it was Robert Gates, the former CIA director whom Mr Bush appointed as defence secretary in 2006 in place of Donald Rumsfeld. By keeping a Republican appointee (who also "considers himself" a Republican) at the Pentagon, Mr Obama reassured the top brass and disarmed Republican leaders, such as Senator John McCain, who were itching to pounce on the mistakes of a president with no experience in national security. In return, Mr Obama heeded Mr Gates's advice, such as his advice to replace America's commander in Afghanistan with Stanley McChrystal, the general whose career came to a sticky end last year when a magazine article portrayed him as arrogant and insubordinate.

Still, all good things come to an end. Mr Gates gave warning last year that he would leave at some point in this one. Now it is confirmed that he will depart at the end of June, and on April 28th Mr Obama unveiled the chain-reaction of staff moves his retirement will trigger. Leon Panetta, the director of the CIA, will take over as defence secretary. David Petraeus, the architect of Mr Bush's successful surge in Iraq, and the general Mr Obama sent to run the war in Afghanistan after General McChrystal's implosion, will end his military career and replace Mr Panetta at the CIA. General John Allen will take over from General Petraeus in Afghanistan. And Ryan Crocker, a former ambassador in Iraq, will become America's new ambassador in Kabul.

A senior White House official says that Mr Obama has been planning this shuffle for months and is delighted with the result. All the men who are moving are deeply experienced and expected to breeze through the Senate's confirmation hearings. As the leading soldier in Iraq and Afghanistan, General Petraeus has had to work closely with the CIA and should slip seamlessly into an agency that has become increasingly involved in military operations in the decade since al-Qaeda attacked America. The general's relationship with the White House has been prickly at times, but by giving this registered Republican a big job in Washington Mr Obama has artfully removed the possibility of his being drafted by a Republican Party still short of good presidential candidates for 2012. That said, the forces in Afghanistan must endure yet another transfer of command at a time when the war is still far from easy.

As for Mr Panetta, two years running the CIA mean that he is already familiar with the main theatres of war and with the foreign officials and leaders he will deal with as defence secretary. It is, after all, the CIA that runs the drone attacks in Pakistan. As for the civilian side of the Pentagon's work, Mr Panetta can draw on four decades of experience in public service, including stints as a Democratic congressman for California and later as budget director and chief of staff in Bill Clinton's White House. On the other hand, he is old: five years older, at 72, than Mr Gates. Moreover, he is a draftee, not a volunteer. He loved his old job and was reluctant to move. All this suggests that he may not last a second term if Mr Obama is re-elected in 2012. Since Hillary Clinton has already said that she will not stay after 2012, the harmony that prevailed between the Pentagon and the State Department during Mr Obama's first term may be absent if he wins a second.

Nor is it clear just how suited Mr Panetta's particular political pedigree is for the immediate job in hand. Since the al-Qaeda attacks of September 11th 2001 money has tumbled into the Defence Department. But as America extracts itself from Iraq-the last troops should leave at the end of this year-and starts this summer to bring some troops home from Afghanistan, the times of plenty are coming to an end. Mr Obama has called for $400 billion of defence reductions over the next dozen years. Although both parties claim to accept in a general way that defence spending must be squeezed, it may be harder for a Democratic numbers-man like Mr Panetta than it was for the well-liked Mr Gates to win over touchy service chiefs and the suspicious Republican hawks in Congress.

It's still the same fellow at the top

Though changes in the national-security team matter, their impact is often exaggerated. It has been clear at least since his mighty Afghanistan cogitation in the summer of 2009 that in foreign policy Mr Obama is a details man, a decider and not a delegator. America's counter-insurgency plan in Afghanistan was in large part drafted by the president himself after his generals failed to provide one he liked. The decision to embark on a half-war in Libya was in the end also very much his own, supported enthusiastically by some members of his team but vehemently opposed by others-including, it is said, by Mr Gates. That is as it should be. Much as parts of his own party hate it, Mr Obama has been right to stick with the broad trajectory Mr Bush had settled on by his second term: an orderly withdrawal from Iraq and strategic patience in Afghanistan. It is fine when events change foreign policy-the Arab spring, say. A foreign policy that changes with the routine rotation of officials in Washington is in trouble.

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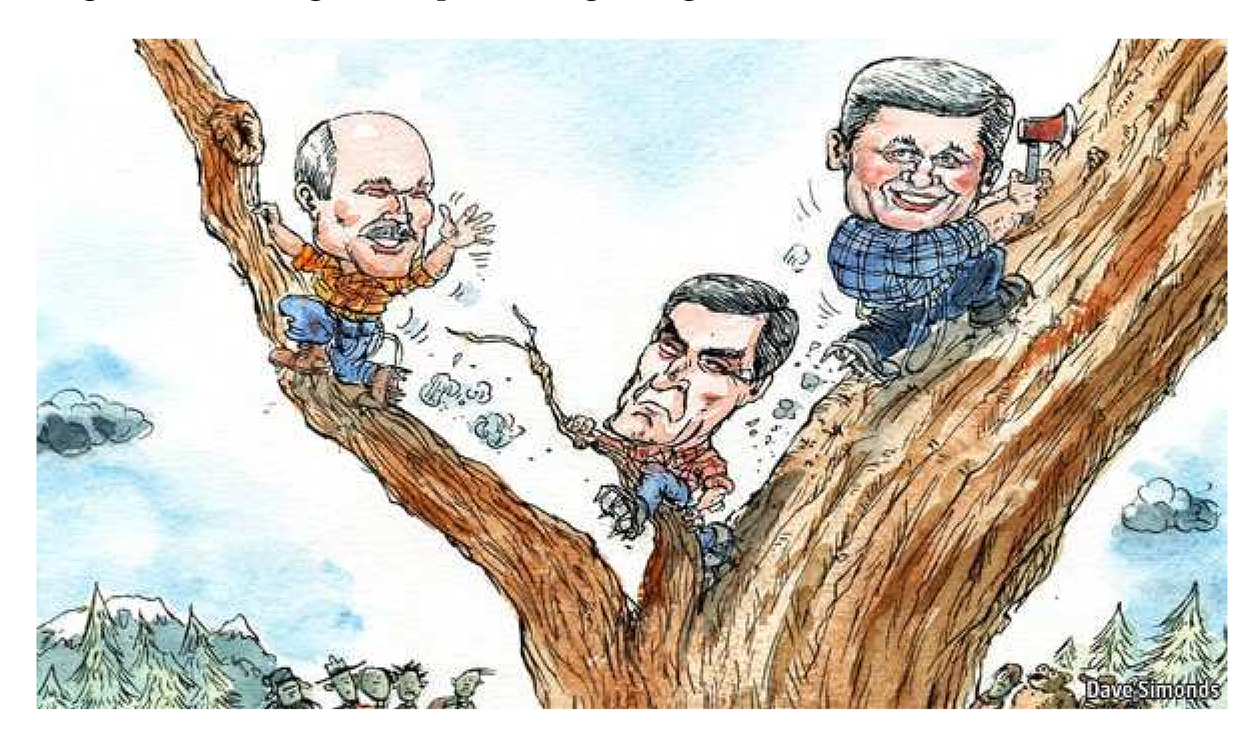
Correction: Compensating the innocent

In our article on exoneration "Small price to pay" (April 9th), we wrongly said that a $14m award to John Thompson was overturned by the Louisiana Supreme Court. It was the federal Supreme Court. Sorry.

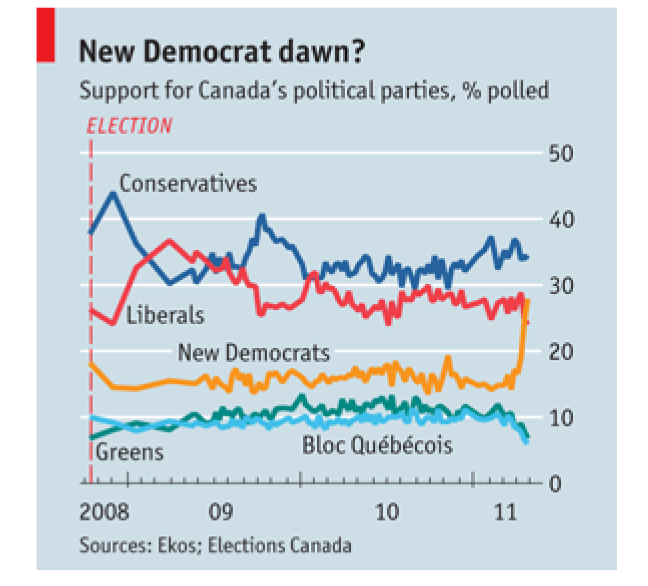
Canada's general election

Stephen Harper and that elusive majority

A last-minute surge for the left might end up benefiting the right



THE hitherto sleepy campaign for Canada's general election on May 2nd was jolted awake over the Easter weekend by a surprising surge by the New Democratic Party (NDP), a leftish amalgam of trade unionists and farmers. The NDP, which held only 36 of the 308 seats in the House of Commons when it was dissolved in March, was leading in French-speaking Quebec (which provides almost a quarter of the total seats) and has overhauled the Liberals in some national opinion polls to become the main challenger to the ruling Conservatives (see chart).



So is Canada about to go socialist? Although the Canadian dollar wobbled this week, the answer is almost certainly not. Indeed, by splitting the centre-left vote more evenly, the NDP's rise-if sustained-may provide Stephen Harper, the Conservative leader, with the parliamentary majority that has eluded him ever since he became prime minister in 2006. In the ensuing years Canadian politics has become an unusually shrill, partisan and intransigent affair. Frequent elections-this is the fourth since 2004-have seen falling voter turnout, while polls show that public trust in politicians is also declining.

This cynicism seems to have helped Jack Layton, the NDP leader. He is seen as the cheerful underdog, who, despite suffering from prostate cancer and hip problems that require he walk with a cane, appears relaxed and smiling. Although based in Toronto, he grew up near Montreal. In colloquial French he claims that "winds of change" are sweeping his native province. His message of higher corporate taxes, more social spending, green measures, and an early withdrawal of Canadian troops from Afghanistan goes down well in Quebec, a traditionally pacifist, big-government kind of place. Mr Layton seems to be successfully wooing disillusioned supporters of the separatist Bloc Quebecois.

The NDP is also profiting from the travails of Michael Ignatieff, the Liberal leader, who entered politics in 2006 after spending most of the three previous decades working as a journalist and academic in Britain and the United States. Although his campaign appearances have become more assured, he has failed to shake off the gibes of Conservative attack ads that he is an elitist from Harvard who is "just visiting" Canada in the hope of gaining power. Mr Ignatieff did not help himself by seeming to try to have it both ways on whether the Liberals might forge a post-electoral coalition with the NDP. In fact, that looks possible provided Mr Ignatieff ends up with more seats than Mr Layton.

Mr Ignatieff triggered the election by joining other opposition parties to bring down the government over its refusal to divulge how it arrived at implausibly low estimates of the cost of controversial new prisons and jet fighters. He seems frustrated that Canadians have not warmed to his attacks on Mr Harper for violating democratic principles. The prime minister shut down parliament in 2008 to avoid losing a vote of confidence, and withheld information from parliament on defence spending and the treatment of Afghan detainees by Canadian soldiers.

The biggest problem for the Liberals, a centrist, big-tent party, is that Canadian politics has become less European and consensual and more American and ideological. Mr Harper has been the main cause and beneficiary of that process. After five years, he has earned Canadians' respect if not their love. He is an astute political tactician: he is the longest-serving prime minister of a minority government in Canadian history. But he comes over as a cold control-freak. A headline on the website of the *Globe and Mail*, a Liberal-leaning paper, summed up popular sentiment when it described the prime minister as "nasty, brutish-and competent".

Mr Harper's campaign pitch is that he needs a parliamentary majority in order to sustain the country's recovery from recession. His message of low taxes, small government and tougher treatment of criminals has won him support everywhere except Quebec. In the past two elections the opposition successfully aroused fears that if Mr Harper won a majority he would subject a tolerant country to socially conservative policies-banning abortion and gay marriage and introducing capital punishment. With Mr Harper now a more familiar figure, that may not work this time.

"This cycle of election after election, minority after minority, is beginning to put some of the country's interests in serious jeopardy," Mr Harper warned in a debate among the party leaders, though he did not say what interests were at stake.

His problem is that he has no potential coalition partner. His Conservatives are further to the right than the former Progressive Conservative Party, which governed Canada on and off until its annihilation in 1993 and which was barely distinguishable from the Liberals.

Provided Mr Harper increases the 143 seats and 37.7% the Conservatives won in 2008, his hold on his job looks secure. Fall short, and the era in which majority single-party governments were the Canadian norm will unarguably have ended.

Until 1988, the two main parties shared more than 80% of the vote between them. In 2008 they managed slightly less than two-thirds. The choice facing Canadians may be between much more of Mr Harper, or the arrival of coalition politics from across the Atlantic.

Index | The Americas

Security in Colombia

New names, old games

Criminal gangs led by former paramilitaries have become the biggest threat facing the new government



HAD Joaquin Tordecilla, a leader of a community of displaced peasant farmers, been at home on the afternoon in February when armed men rounded up the group, stripped them of their mobile phones and forced them to watch the murder of another of their leaders, he would have probably been gunned down as well. But Mr Tordecilla was in the city that day, filing a complaint about threatening demands they had received to vacate their land. He, his wife and 12 children are now crowded into a small home with a dirt floor in Monteria, the capital of the northern department of Cordoba.

His fate is a familiar one in Colombia. Over the past three decades between 3.5m and 6m hectares (8.6m to 15m acres) of farmland have been seized by armed thugs, according to estimates by officials. The chief villains were right-wing paramilitary groups, whose motive was in part to wrest territory from the left-wing guerrillas of the FARC.

When a security build-up under Alvaro Uribe, Colombia's president from 2002 to 2010, reduced the FARC to smaller bands in remote areas, some 30,000 paramilitaries demobilised, formally at least. So who evicted Mr Tordecilla? He rattles off the names of several armed groups, new and old. "Who knows?" he concludes.



Their nebulous character does not diminish the threat that such outfits pose to Colombia. But it does underline that the country's security problems are changing. The number of murders has fallen steadily, to two-thirds its level of 2003, but parts of Colombia's cities and countryside remain violent. The FARC has reorganised into much smaller units, continues to inflict casualties on the security forces and is making widespread use of landmines. But the perpetrators of some 40% of the killings are now what the government calls "new criminal bands". The government of Juan Manuel Santos, who replaced Mr Uribe last August, sees these outfits as the biggest security threat it faces.

Two of these groups, the Rastrojos and the UrabeÃ±os, are now involved in a murderous turf war in southern Cordoba and north-east Antioquia, an important route for exporting cocaine and importing the chemicals needed to make it. This fight left 600 people dead in Cordoba last year. The victims include civilians caught in the crossfire (such as two visiting students from Bogota shot by the UrabeÃ±os.)

Some of the government's critics call the bands "neo-paramilitaries." Human-rights groups suggest that the murders of community activists, occasional indiscriminate massacres of a dozen or more villagers, and land evictions are designed to exert social and political control over territory, just as the paramilitaries used to do. The bishop of Monteria, Julio Cesar Vidal, says that the leaders of some of the new bands have told him they want to negotiate with the government, implying they have political aims.

But the government insists that there is nothing to negotiate about with groups that are purely criminal. General Ã“scar Naranjo, the police commander, says the bands are simply the latest iteration of the drug trade in Colombia, and their quest for territory an effort to control smuggling routes or take back mafia land expropriated by the government. He says there are seven separate groups, totalling up to 4,000 members (others put the figure at up to 10,500).

The new bands are indeed partly made up of former paramilitaries, President Santos says. But he stresses that they behave as mafias. In many areas of the country they have reached accommodations with the FARC, which is also heavily involved in drug-trafficking. Rather than deploying military bombardments against them, the new bands must be fought "with intelligence, like other criminal organisations," Mr Santos says. And the government needs to establish firm control over territory where this is lacking.

Its efforts to do so take two forms. In urban areas, the police have adopted a new scheme of community policing, marking out 1,500 areas that are crime hotspots and assigning a permanent police presence to them. In rural areas, the government has embarked on an ambitious plan to seize land stolen by the mafias and return it to its original owners. A bill under debate in Congress will give it firmer powers to do so. This law can be expected to face violent resistance as well as a rearguard action in the courts. Officials say that success will turn in part on another planned reform, of the judiciary, the details of which they are discussing with the judges.

It will also require more police in the countryside. The carabineros, a special rural police force, are only 47,000 strong. General Naranjo says they can do the job if they work together with the army. That in turn will require vigilance against corruption. More than 1,000 members of the security forces are under investigation over claims of links to the criminal bands.

Leon Valencia, a former guerrilla turned political analyst, says that the greater emphasis Mr Santos's team is placing on fighting the neo-paramilitary mafia, and on agrarian reform, could have another benefit. It could allow the FARC to claim vindication for their 45-year war and finally seek peace, he says. A decade ago very public peace talks collapsed because the guerrillas used them as a propaganda exercise while continuing to kidnap and recruit. No government could risk a repeat. This time any talks are likely to be private and discreet, at least first.

Index | The Americas

Mexico's drug war

Shallow graves, deepening alarm

Still no end to the horrors

OFFICIALLY, nearly 35,000 people have been killed since Mexico's president, Felipe Calderon, began an assault on his country's drug-trafficking "cartels" at the end of 2006. But the true body count will never be known. On April 6th police discovered mass graves near San Fernando, a town in Tamaulipas state near the border with the United States, which so far have yielded 183 bodies. Two weeks later hidden tombs were discovered in the north-western city of Durango from which 100 corpses have so far been extracted.

The Tamaulipas victims were apparently killed with sledgehammers or burned alive. They included a car salesman, a social worker and a Guatemalan migrant. Investigators believe they were kidnapped from buses to be robbed and raped by the Zetas cartel. The authorities' failure to stop the slaughter, even as unclaimed luggage mounted at bus terminals, is stunning: only last summer, 72 migrants were found murdered near San Fernando, supposedly by the same cartel. However, police did free two groups of kidnapped migrants elsewhere in the state this month.



The killings undermine the government's claim that drug-war casualties are almost all criminals. Mexicans are tiring of this war without end. On April 6th there were protest marches in 21 states, following the suffocation with duct tape of seven youths in the formerly quiet city of Cuernavaca. Polls shows that for the first time under Mr Calderon worries about security trump those about the economy. Although cartel henchmen continue to fall-11 middle-ranking Zetas have been killed or captured this year-there is no shortage of new recruits. La Familia Michoacana, a gang that was virtually destroyed in January, announced its rebirth as the "Knights Templar" in March. From the ruins of the Beltran Leyva cartel, smashed last year, have sprung two new upstarts.

Some analysts say the plague of kidnapping (up fourfold compared with 2005) and extortion may show that government pressure is forcing some drug cartels to diversify. Organised crime in the region has never been only about drugs: as well as cargo theft, prostitution and the like, the Sinaloa mob is said to have interests in avocados; in El Salvador, a feared "cheese cartel" imports dodgy dairy products from Honduras.

Whoever the perpetrators of these horrors and whatever their motives, they clearly counted on official complicity. Of the 74 people arrested so far in connection with the butchery in Tamaulipas, 17 are local police officers. More than four years after Mr Calderon launched his assault, his government has yet to create a national policing system it can rely on.

Cuba's cigar industry

Smoked out

Rolling up under-the-counter trading in an emblematic product



What price a Cohiba?

ONE of the reforms approved at this month's Congress of Cuba's ruling Communist Party was a change in the treatment of the country's 3,000 or so state-owned enterprises. Their management will enjoy more autonomy, but they will be subjected to thorough audits. That follows a trickle of corruption scandals. The latest involves Habanos, the state cigar monopoly.

For over a decade Manuel Garcia, Habanos's commercial vice-president, was the public face of the Cuban cigar industry, living a jet-set life that most Cubans can only dream of. But this year Mr Garcia was not there to greet visitors at the Havana cigar festival. Since August 2010 he has been in jail, accused of masterminding graft on a grand scale.

The cigar industry was nationalised shortly after the 1959 revolution. But it was only in the late 1980s that Cuba took control of distribution, informing foreign retailers that it would supply only one distributor per region, in return for a 50% stake in the business.

That did not prevent the small-scale peddling of black-market cigars on the streets of Havana. But in the past decade the system has faced a bigger threat from dozens of online cigar retailers operating mainly from Switzerland and the Caribbean. Many operated legitimately, but some offered improbably low prices.

Cuban investigators believe they were able to do so because Mr Garcia and ten of his staff, who also face trial, sold genuine cigars at a fraction of their normal price to black-market distributors in the Caribbean in return for bribes. Up to 45m cigars may have been sold this way. Since handmade *habanos* fetch up to pound40 ($65) each in shops in the St James's district of London, the loss was considerable.

The fraud also hurt Imperial Tobacco, a British company which inherited a 50% stake in Habanos when it bought Altadis, a Franco-Spanish firm, in 2008. Imperial has made no comment on the affair. But like the government, it will hope that the new management team at Habanos preserves the lucrative monopoly in Cuba's most famous product.

Index | Asia

Japan's unhelpful politics

Rebuilding Japan-or ruining it

A precarious future for the country, but its politicians are self-absorbed



IMMEDIATELY after the earthquake and tsunami on March 11th that crippled reactors at the Fukushima Dai-ichi nuclear power plant, all but one of the devices to measure radioactive matter in the area were knocked out. So the authorities in Tokyo sent up a vehicle stuffed with gauges to assess how dangerous the leakage was.

Bewilderingly, says Goshi Hosono, a politician recently appointed to oversee Tokyo Electric Power (TEPCO, the utility that runs the plant), the vehicle got stuck in traffic. It then ran out of petrol at a time when the tsunami had led to a nationwide shortage of fuel. Because of this, the government abandoned the mission. Later, the government declared the Fukushima incident to be on the same level of seriousness as the accident at Chernobyl 25 years ago. Yet it had taken what Mr Hosono says was seven to ten days before the government could get reliable data on the amount of radioactive matter pouring out. During that period it became clear that a partial meltdown had taken place in at least one of the six reactors.

Such stories may leave people aghast over how haphazard has been the response to Japan's nuclear mess. After all, at the time even journalists driving close to Fukushima were able to get petrol on the main highways. Still, to date no concrete accusations suggest that the prime minister, Naoto Kan, has comprehensively mishandled the daunting array of disasters that together make up the biggest challenge Japan has faced since the second world war. Ordinary people have a growing perception that Mr Kan easily loses his temper and they do not like that, says Koichi Nakano of Sophia University. "But there have been no clear examples where his action has been terribly damaging."

For all that, politicians from within his own party, as well as the opposition, are plotting to oust Mr Kan. It is yet one more indication, if any were needed, of how alarmingly self-absorbed are Japan's political classes.

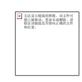
On April 26th Yukio Hatoyama, a former prime minister, held a forum of 64 anti-Kan parliamentarians from the ruling Democratic Party of Japan (DPJ). In fewer than nine months in office, Mr Hatoyama proved an abysmal prime minister. Since his resignation, he seems to have cast aside those memories to grow increasingly resentful of his successor. He called his forum a "Harmonious Solidarity for the Grand Coalition to Tackle the Earthquake Disaster". Far from promoting harmony, its implicit aim was to foster a coup within the party against Mr Kan.

Meanwhile, the opposition Liberal Democratic Party, which ruled for much of the half-century to 2009 and thus bears a large share of the responsibility for lax safety standards in the nuclear-power industry, is also seeking Mr Kan's early resignation. It may pursue a censure motion in parliament with other opposition parties.



All this, even though the public shows no enthusiasm for yet another revolving-door prime minister. To all but the political classes engaged in plotting, a leadership struggle for its own sake at a time when the focus should be on dealing with nuclear and humanitarian concerns seems crazy. None of the main parties has offered a compelling alternative for how to recover from the disaster. This includes the DPJ. Far from using the crisis as an opportunity to push for reform, the party's secretary-general, Katsuya Okada, says things should "settle down" before the party proposes rebuilding initiatives, new energy policies and a rise in the consumption tax to pay for reconstruction.

All is not hopeless, however. On April 26th Makoto Iokibe and Jun Iio, the two (non-government) leaders of Mr Kan's new Reconstruction Design Council, laid out their early thoughts on how to rebuild Tohoku, the shattered north-eastern region of Japan's main island where almost 26,000 have died or remain missing, presumed drowned. Though they believe it will take at least a decade to recover, their vision, especially compared with the lack of it in politics, is daring. They want to let locals play the main role in reshaping their blighted communities; rebuild in ways that suit elderly residents; use ideas from business and abroad; and limit the influence of the government in Tokyo, which they believe dangerously overcentralises decision-making. Japan's usual way of doing things, Mr Iio insisted, was not up to meeting challenges on this scale.



The same day, Mr Kan announced his decision to appoint an investigative panel into the Fukushima chain of accidents. Nuclear officials believe Japan needs a quick and thorough investigation, including international experts, if it is to gauge the safety of other nuclear plants. In particular, it will have to look into what happened on the night after the tsunami, when there was a delay in "venting" pressure building up in one reactor. Officials worry most about the Hamaoka plant in Shizuoka prefecture, which is reckoned to pose the greatest risk to Tokyo should a quake strike nearer the capital. Hamaoka is of a similar type and age to Fukushima Dai-ichi.

But whether the reconstruction council and nuclear investigation promote deep changes in the way things are done in Japan rests largely on the prime minister's powers of leadership. Only Mr Kan can make sure that the good ideas which emerge do not sink into the Tokyo swamp of bureaucrats and politicians. With some of his party against him, and the opposition unco-operative, it is not even clear that Mr Kan will get emergency budgets approved by the Diet, let alone be able to promote decentralisation and sound energy initiatives. It might help if ordinary citizens spoke out strongly for change. But apart from sporadic protests against TEPCO in the past week, they have yet to make their voices heard above the petty politicians.

Index | Asia

Taiwan's opposition

Just ask the public

The DPP chooses a promising candidate for the presidency

WITH fewer than nine months until he seeks re-election, Ma Ying-jeou's life has just got harder. Not only will he be running against a Taiwanese economy which, despite booming trade with China, shows stubbornly flat wages and high inequality-factors that have caused the president's popularity to slump. Now a once impeccable Mr Ma faces a formidable opponent for the presidency. On April 27th the opposition Democratic Progressive Party (DPP) said that its nominee was Tsai Ing-wen, the party's popular chairwoman. She becomes Taiwan's first female presidential candidate.

Ms Tsai, an academic and former minister in charge of thinking about how to deal with China, took the DPP chair nearly three years ago at certainly the lowest point in the party's history. Charges of large-scale corruption were swirling around the DPP's previous leader, Chen Shui-bian, a hardline pro-independence firebrand whose two terms as president from 2000-08 had alienated the public. He was later jailed. Under Ms Tsai's leadership, the party has been able to distance itself from Mr Chen, and even reinvent itself as a party of competence as well as reasoned thinking towards the mainland. In key municipal elections last November, it ended up winning more individual votes than Mr Ma's Kuomintang (KMT). The DPP also had landslide wins in a few parliamentary by-elections to boot.

Perhaps even more worrying for Mr Ma, the opposition chose its candidate by asking the public's opinion. It employed five polling companies to ask people about the popularity of three DPP presidential contenders and how they fared next to Mr Ma. Both Ms Tsai and Su Tseng-chang, a former prime minister who trailed her by a whisker, would beat Mr Ma in an election, the pollsters deemed.

Ms Tsai's strength is that she comes across as a member of a new generation, both within her party and the country as a whole. She appeals to young Taiwanese and she has become a champion of environmental causes. Partly because of opposition pressure, Mr Ma withdrew his backing last week for a huge petrochemicals plant proposed near delicate wetlands in Changhua county on the west coast.

Perhaps most importantly, Ms Tsai favours moderate policies towards the mainland, in contrast to Mr Chen's belligerent approach. She has even dared to chide as "revolutionaries" some senior DPP hands, implacably opposed to China.

Still, although Ms Tsai's stance may well appeal to middle-of-the-road voters, it is unlikely to be accepted by China. The mainland's leaders insist that progress in relations across the Taiwan Strait requires the Taiwanese government to accept the "1992 consensus". In this both sides agree that they loosely belong to China, while disagreeing on the definition of what that means. Ms Tsai rejects the consensus, dismissing such an approach as belonging to an earlier, more dogmatic era. Already, China has reacted testily to her nomination.

Unlike members of the DPP, Mr Ma is able to talk to China. Increasingly, though, Taiwanese see this as a weakness rather than the strength he hoped for. Perceptions are growing that Mr Ma's economic policies, including a cross-strait pact on free trade signed last June, benefit large corporations more than ordinary folk. On April 22nd Taiwan's election commission set the date for combined presidential and parliamentary elections for January 14th next year. That does not give Mr Ma much time to turn those perceptions around.

Index | Asia

China and Confucius

Sage move?

In the night an old philosopher mysteriously vanishes



Spirited away

JUST a short while ago, and with great fanfare, a hulking 9.5-metre (31-foot) statue of Confucius was installed outside the newly renovated National Museum of China on Beijing's Tiananmen Square, in front of the Forbidden City. The positioning could hardly have been more prominent. Confucius sat just across from the mausoleum of Mao Zedong, who railed in his day against the old sage and all the traditional values he supposedly stood for. At the January unveiling, a museum curator suggested that the statue showcased Confucius's political and cultural significance. What, then, to make of its sudden removal last week under cover of dark?

Officials are keeping mum about the reasons. The state media claim that the statue was all along going to be tucked into a quiet courtyard inside the museum grounds, and that it had been parked out in front only while the space was being readied. But in a system excruciatingly attuned to political symbolism, that seems implausible.

Confucius had enjoyed something of a revival of late, after a rocky ride during the Cultural Revolution when Mao vilified him for supposedly representing all that was feudal about China. After Mao's death, Confucius was at first quietly tolerated and then, more recently, celebrated anew. Popular books and films about Confucius have sprouted, along with academic interest. Around the world, the Chinese government has funded Chinese-language study centres, called Confucius Institutes. Confucius has been seized on as a possible antidote to a perceived lack of morals accompanying China's headlong rush towards modernity. For China's growing international profile, he has been a useful branding device.

In China the Confucius revival has won supporters and detractors. Perhaps a shifting official view ought not to surprise. The bits of Confucianism emphasising social order, family harmony and deference to the system sit well with today's Communist leaders. More awkward are the bits that stress a government's accountability to its people, and its perpetual obligation to earn the right to rule through its own ethical conduct.

Neo-Maoist websites are crowing about the abrupt removal of the "witch doctor" statue. Yet according to Stephen Angle, a specialist of Confucianism at America's Wesleyan University, angry reactions to this episode, as well as a controversy in December over plans to build a large Christian church near Confucius's birthplace in Shandong province, show that a loose but large group of people seeing themselves as Confucians is finding its voice. This group makes arguments that are rooted in ancient values but aimed at contemporary realities. And, unlike the Confucius statue, they are unlikely to go away.

Afghanistan security

Break for the hills

A mass Taliban jail break comes at an unwelcome time



It stops my mind from wandering

IT WAS, said the president's spokesman, a "disaster". Some 500 prisoners, mostly Taliban fighters, had escaped in the early hours of April 25th from a prison holding insurgents in southern Afghanistan.

The caper involved an 18-man crew working from outside the prison undetected for five months. They dug a tunnel some 320 metres (1,050 feet) long into the heart of the Kandahar jail. The tunnellers started their work from a compound that housed a construction company. They deftly concealed the excavated soil. They put in metal beams to support the tunnel as it ran under one of the country's main highways, and they installed lighting and ventilation.

As well as flaunting the Taliban's ability to pull off remarkable stunts, the episode also exposed, yet again, the feebleness of Afghan security forces. The Afghan army and police are meant to take over the handling of the country's security from the Western-led international coalition by the end of 2014. The president, Hamid Karzai, joined the chorus of people claiming that the escapees must have got inside help from prison guards. Insurgent infiltration of the security forces is a subject of mounting concern. A series of deadly attacks have taken place, especially against coalition forces, by men in Afghan uniforms. The latest came on April 27th, in Kabul, when an Afghan pilot killed eight American soldiers and a civilian contractor. It is unclear whether the pilot, who was killed, had Taliban sympathies.

Yet others, including one of the Taliban escapees, gainsay the idea that the breakout had inside assistance. Contacted by telephone soon afterwards, the 28-year-old said there was no need to infiltrate the guards. They were, he said, all stoned. He said it was normal for them to get high on marijuana or heroin and then turn in for a good night's sleep. The guards realised only hours later that their charges had escaped. The contrast between Afghan government hopelessness and insurgent craftiness could hardly have been more stark. The Taliban were quick to follow up the escape with an information campaign, putting out a press release in perfect English that crowed about their success.

Coming on the cusp of the summer "fighting season", the timing of the breakout could not be worse for David Petraeus, the American general in charge in Afghanistan (and proposed as the next head of the CIA). He is anxious to press home military gains from a surge of American troops last year into southern Afghanistan. When around 1,000 prisoners escaped from the same prison three years ago (suicide bombers blew a hole in the perimeter wall), the numbers of hardened

fighters seeping back into the districts around Kandahar city quickly caused violence to worsen. Only President Barack Obama's troop surge last year turned the tide. The Taliban will struggle to mount the sort of pitched battles they staged after that earlier great escape. Still, an infusion of fighters will boost an insurgency that has lost huge numbers of mid-level commanders in the past year to NATO special forces.

Coalition forces can only press on with their efforts to hunt down insurgent commanders. After the debacle at Kandahar prison, they were at least able to announce that earlier in the month they had succeeded in killing a key al-Qaeda commander, a Saudi Arabian called Abdul Ghani, whom the alliance said was its second-highest target in the country. Still, they will have their work cut out when pitted against the fighters who walked out from under their noses on Monday morning.

Banyan

Truth and consequences

Nationalistic fury is good for the government, terrible for Sri Lanka



IN RECENT years the default mode for Sri Lankan diplomats has been a posture of affronted national dignity beneath a mask of outraged, sanctimonious innocence. This week, after the publication of a report by a panel of experts for the United Nations on the final stages of Sri Lanka's 26-year civil war, some were recalled to Colombo for "consultations". Maybe they are brushing up their indignant-repudiation skills.

The war culminated in May 2009 with the army's crushing of the rebel Liberation Tigers of Tamil Eelam. Its climax was marked by ruthlessness and callous disregard for human life. The panel concluded that "there is a reasonable basis to believe that large-scale violations of international humanitarian and human-rights law were committed by both sides". Since hardly any of the Tigers' leaders outlived the war, it is the government of Mahinda Rajapaksa, Sri Lanka's president, that is in the dock.

It is probably too much to hope the government might adopt a fresh approach to these familiar allegations. There were always at least three ways to tackle them. It could, early on, have argued brazenly that the benefits of ending the war outweighed the cost in human life. The Tigers were as vicious and totalitarian a bunch of thugs as ever adopted terrorism as a national-liberation strategy. Or the government could have insisted that its army's behaviour was largely honourable, but that some regrettable abuses may have occurred, which would be thoroughly investigated.

Instead, it chose a third path: to lie, and to lie big. It insisted that it pursued a policy of "zero civilian casualties". Even as its forces shelled the shrinking "no-fire zone" in which the Tigers held some 330,000 civilians as human shields, it either denied it was doing so, or promised to stop and did not. It kept foreign observers out and bullied the local press into silence. The UN report found that "tens of thousands" were killed in January-May 2009, with most civilian casualties caused by government shelling.

The report relates little that has not appeared in accounts by human-rights groups. But it is unusually blunt, perhaps reflecting exasperation at the Sri Lankan government's obstructive, aggressive tactics. The three-member panel is distinguished enough to shrug off Sri Lanka's accusations of bias. The chair, Marzuki Darusman, is a former attorney-general of Indonesia. The report calls the conduct of the war "a grave assault on the entire regime of international law designed to protect individual dignity during both war and peace".

The government, however, is now too deeply wedded to its strategy of denial to back down even an inch. It lobbied hard against the publication of the UN report, arguing it would damage efforts at national reconciliation. Now that Ban Ki-moon, the UN secretary-general, has ignored its objections, it has whipped up a frenzy of national resentment against the perceived calumnies. This goes down well at home. Standing up to foreign bullying only enhances Mr Rajapaksa's popularity among the ethnic-Sinhalese majority. Responding to the report, the president has said he would be happy to sit in the electric chair on behalf of his country. A huge turnout is expected for May Day rallies at which he has asked for a show of support for his government.

If the report has brought Mr Rajapaksa short-term political benefits at home, he may also conclude that the diplomatic fallout is easily manageable. Sri Lanka is not without supporters. Just days after the end of the war in 2009, the UN's Human Rights Council passed a resolution praising its victory, condemning Tiger war crimes and overlooking altogether allegations against the Sri Lankan army. Of its diplomatic allies back then, India is now less staunch. But China and Russia remain firm defenders of the rights of sovereign governments to quell secessionist movements, and do not seem squeamish about the means.

They may be even keener, after the UN-authorised intervention in Libya, to show that was the exception to a rule of non-interference. So Sri Lanka will continue to resist calls for any formal inquiry into the war beyond the "Lessons Learnt and Reconciliation Commission" (LLRC) it established. Though due to report soon, the commission has failed to earn credibility.

In the long run, however, the semi-official status the UN report gives allegations of war crimes will haunt this government. The well-organised, far-flung Tamil diaspora will hound Sri Lanka's leaders when they go abroad, and put pressure on foreign governments to demand accountability. Skilled at exploiting the rivalry between India and China, whose arms supplies helped win the war, Sri Lanka's diplomats may argue that they no longer need the West. But, proud of Sri Lanka's democratic traditions, they will smart at being seen as front men for a shoddy dictatorship, engaged in what now looks like a desperate cover-up.

After such knowledge, what forgiveness?

Though perceived foreign slights may enhance the government's standing at home, it is there that the concealment of the truth about the war's end will do most damage. It is not as if there were no witnesses. Some 300,000 people know first-hand parts of what happened. When the LLRC held hearings in the north, scene of the fighting, survivors told harrowing tales of loss and asked where missing loved ones were. Without answers, it is hard to see how they can be "reconciled".

Nor does the government show any sign of moving towards a political settlement, to meet the grievances of the Tamil minority that fuelled the conflict. Gordon Weiss, the UN's spokesman in Colombo during the end of the war, predicts in a forthcoming book ("The Cage") that Tamil emigration will continue, "encouraged by political stagnation, a lack of rights and rule by fear". And also by the government's continued refusal to countenance any serious investigation into how it won the war.

Economist.com/blogs/banyan

Index | Middle East & Africa

Revolt and repression in Syria

Could the Assad regime fall apart?

As protests spread, Bashar Assad faces opposition from within and without



AFTER swinging between reform and repression, President Bashar Assad has cracked down on anti-government protesters with renewed and desperate vigour. On April 22nd more than a hundred Syrians were killed in at least 14 different towns, by most counts bringing the death toll since demonstrations began in earnest a month ago to more than 450. On April 25th the repression reached a new ferocity when tanks rolled in to the southern city of Deraa, where the protests had begun. The death tally could yet rise sharply, as Mr Assad's legitimacy falls fast.

Before the army launched its attack on Deraa, electricity and communications were cut off and outsiders banned from entering. Water and bread have been running low. Wounded protesters are being denied access to medical treatment. Scores of people there and in other areas, including Douma, a suburb of the capital, Damascus, have been locked up. Checkpoints have proliferated. Parts of the country feel as if they are under siege.



After lifting the emergency laws that had prevailed in Syria for nearly half a century, Mr Assad seems to have run out of concessions to offer the protesters, who are demanding more vociferously than ever that he and his regime should go. But Mr Assad may think he can copy the methods that kept his father, Hafez, in power for 30 years until his death in 2000. When Islamists revolted in 1982 in the town of Hama, it is generally reckoned that the senior Assad, ordering his army to shell the place, left 20,000 people dead. Today's president has also shown he can be tough: when suppressing a Kurdish uprising in Syria's north-east in 2004, 30 were killed. But now he looks set to kill a lot more.

Mr Assad is still banking on the loyalty of his armed forces and police. Assorted paid thugs have been given batons and electric tasers. In the coastal towns, such as Latakia, a smuggling gang known as the Shabiha, linked through the minority

Alawite religious group to the Assad clan, have carried out drive-by shootings of demonstrators. The army is run by hand-picked Alawites and Sunni loyalists. The ubiquitous Mukhabarat, or secret police, is likewise packed with placemen.

The security service, thought to number at least 65,000 full-timers, has been responsible for most of the violence. Set up by Hafez Assad soon after his coup in 1970, its 15-odd branches fall under four main intelligence headings: general, political, military and air force. Only tenuously linked to any civilian institution, they are above the law and sign off on virtually all big decisions. Their heads report directly to Mr Assad. "They provide security for the regime, not for the state," explains a well-informed local. "They will never defect." They also spy on each other. On occasions during the current crackdown their members have arrested or shot people from rival branches.



If Mr Assad is confident of his ubiquitous security service, he must be worried by reports that some soldiers, probably conscripts, have been shot for refusing to fire on protesters. Some say that military units in Deraa actually turned against each other. But a large-scale defection is unlikely. Many officers hail from the Assads' own Alawite branch of Shia Islam and from other minorities, all owing a special allegiance to the regime. For the sake of appearances, the defence minister has usually been a Sunni. But in 2009 Ali Habib Mahmoud became the first Alawite in years to hold the post.

In the past mistrust has been felt between the Presidential Guard and the army's fourth division. Both are now believed to answer to Maher Assad, the president's powerful younger brother. The fourth division is considered akin to a private militia. Many of its officers are the sons of veterans once loyal to Hafez Assad's younger brother, Rifaat, who commanded the forces responsible for pulverising Hama in 1982 and who now lives in exile.

Although all the main levers of power are held by a group of Alawites close (and often related) to the Assad family, it is less clear whether the president himself is fully in charge. Some say Maher really calls the shots behind the scenes. There are frequent reports of angry debate inside the ruling circle between those who want reform and those who want to stick to the old system. The president has often been portrayed as a reformer who is less inclined to use force.

But he has proved capable of ruthlessness. After a big-shot former vice-president, Abdel Halim Khaddam, defected in 2005 and set himself up in opposition in Paris, Mr Assad spring-cleaned his regime. He sacked or switched round a number of senior security men and dumped his vice-presidents. After the assassination in Beirut in 2005 of Rafik Hariri, a tycoon who was five times prime minister of Lebanon, many blamed Mr Assad-or at least people close to him. Soon after that episode, Ghazi Kanaan, a former Syrian interior minister who for many years ran Syria's intelligence service in Lebanon, committed suicide in unexplained circumstances.

In any event, the inner circle today includes Maher Assad; Assef Shawkat, a brother-in-law of the president, who was formerly head of military intelligence and is now the army's deputy chief of staff; and Rami Makhlouf, a cousin of the president who is by far Syria's richest businessman. Behind this family troika is a clutch of extremely rich tycoons known as the "sons of power", who are mostly from families of military men who were close to Hafez Assad. They hold sway in oil, gas, tourism and telecoms. A son of a former intelligence chief, Bahjat Suleiman, is a media mogul; the sugar monopoly is held by the son of Mustafa Tlass, a former long-serving defence minister. The current president has, until recently, been a lot more popular than the family troika and its business friends among ordinary Syrians.

Jumping ship

But the regime is not only Alawite. Mr Assad also depends on the loyalty of Sunni merchants in Damascus and Aleppo, Syria's second city, and of various Druze and Christians in high positions. There are signs that this wider coalition may be fraying. At least two members of the rubber-stamp parliament, a tribal sheikh and several figures from the ruling Baath party in Deraa, have recently defected. On April 27th it was reported that 200 members of the Baath party, most of them from Deraa, had left it. Some predict that Farouk Sharaa, the vice-president who comes from Deraa, may break with the regime.

The Assads' power-base, though founded on the Alawites, has expanded. "The regime was Alawi at the start," says a senior diplomat, "but it strengthened itself by buying the support of a large part of the rest of the population. If they decide they have nothing to lose, this ploy could now turn out to be a weakness."

Moreover, there are signs of division within the Alawite community itself. Along the coast near Latakia and in the hills above, fancy villas testify to the wealth of prominent Alawites. But the secretive community is divided into sects and tribes, some of which have done a lot better than others. The lower ranks have been catching the blame for the iniquities of Alawite rule, but none of the benefits. Several Alawites have recently criticised the regime; others have been arrested.

In any event, the regime has long relied on divide-and-rule tactics. Provincial governors are posted to towns other than their own; army conscripts tend to serve in areas with which they are unfamiliar. Posters have been appearing on walls, warning ominously against *fitna*, an Arabic word for division that has sectarian overtones.

But the biggest fissure, and a chief cause of the unrest now roiling the country, is between haves and have-nots rather than religious or ethnic groups. A popular chant among the protesters is "One! One! One! Syrians are one!" Most Syrians are practising Muslims, but the young people who have predominated in the crowds of protesters are connected to their compatriots more by the internet than by religion.

"Fears of sectarian strife are massively overblown," says Rime Allaf, an expert on Syria at Chatham House, a foreign-policy think-tank in London. "No one is claiming all the sects love each other but there is no history of sectarian strife in Syria and little appetite for it now." A good three-quarters of Syrians are Sunni, whereas around a tenth are Alawites and a tenth Christian.

A bigger problem for the opposition is that it has no obvious coherence or leadership. Political parties have been illegal. Syrians who have started civil groups have often been jailed. In 2001, after a brief breathing space following Hafez Assad's death known as the Damascus Spring, the new president clamped down on dissent. In 2005 there was another flurry of debate, as some well-known dissidents were freed, but once again it was short-lived.

The exiled opposition, including Mr Khaddam in Paris, the Islamist Movement for Justice and Development in London, and the Reform Party of Farid Ghadry in Washington, has never taken off. But inside Syria some of the signatories of the Damascus Declaration, an alliance of secular Syrians, Kurds and Islamists who got together in 2005, have been speaking out and are better known. More than 150 people have signed a new "national initiative for democratic change".

Some of them are previous signatories of the Damascus Declaration. They include secular people, Islamists, Kurds and young campaigners who have recently emerged from the street in cities all over Syria. A network of young campaigners, including prominent women, such as Suheir Atassi, have been pushed into taking more overtly political role. Young writers and human-rights activists who have lobbied for causes such as Iraqi refugees have come to the fore. Riad Turk, a Sunni businessman who spent 25 years in jail, is a widely respected supporter. For the first time in years, the protests have been giving Syrians a chance to discuss the future outside the clamps of the Baath party. They all agree that one-party rule should end.

The Muslim Brotherhood, membership of which still carries the death penalty, would certainly benefit from Mr Assad's fall. But its exiled leaders, as elsewhere in the Middle East, are at pains to promote a non-violent vision. Muhammad Riad Shaqfa, the Syrian Brothers' London-based leader, says he does not want an Islamist state. But Syria's Islamists vary. The Sunnis vary too. Most of them shun political Islam. Radical Sunni parties had to remain underground. But most observers doubt they would be very popular if allowed to be legal.

Whereas the United States and European governments have castigated the Syrian government for shooting protesters, virtually all Arab governments in the vicinity have been silent, fearing a sectarian spillover if the strife were to worsen and spread. Turkey, which shares a border of 900km (560 miles) with Syria and dreads an influx of refugees, especially Kurds, has been the odd neighbour out. Its government has enjoyed good relations with Syria's for the past few years. But Turkey's prime minister, Recep Tayyip Erdogan, has publicly urged Mr Assad to use "maximum self-restraint" in dealing with the protests. It seems unlikely that Mr Assad will heed his words. But, even if he kills a lot more protesters, the momentum is against him.

Index | Middle East & Africa

Coming out of the Arab woodwork

Extreme Islamists are growing more confident in the wake of the upheavals


The ancestral way of swotting

VITTORIO ARRIGONI did not live like a good Islamist. The 36-year-old Italian idealist who was strangled in a Gaza flat on April 15th had tattoos on his body, which Sunni Islam forbids, including the name of God in Arabic, a double profanity. And he was a bit Bohemian; he and his colleagues from the International Solidarity Movement, a pro-Palestinian group which has sometimes provided human shields against Israeli attacks, were said to be friendly with local women.

Hamas, the Islamist movement that rules Gaza, overlooked such lapses and offered him a state funeral for services rendered to Palestine. It has condemned his killers, radical Muslims who call themselves Salafist-Jihadists, as outcasts, and used his murder to put their own Islamist brand in a softer light.

The struggle between Hamas's Muslim Brotherhood strain and the Salafists, whose name derives from the Arabic for "forefather", denoting their wish to emulate the behaviour of the Prophet Muhammad's companions, is decades old. The Brothers' movement was born in Egypt, the Salafist one in Saudi Arabia, and the duel has long reflected the way their motherlands vie for regional influence. Brotherhood preachers are pragmatic and have less bushy beards. The Brotherhood's mentor, Sheikh Yusuf Qaradawi, is said to enjoy listening to recordings of Egypt's matronly diva, Um Kalthoum, which send Salafists into paroxysms of puritanical anger. Across the region, the Muslim Brotherhood challenge rulers much like a civil-rights movement. Salafists, by contrast, accept their governments, unless they deem them non-Muslim, which the more activist jihadist types tend to do with remarkable ease. Then they try to blow them up.

But the lines separating the two schools are increasingly blurred. Across the region many share similar experiences. When Egypt suppressed the Brothers in the 1950s, many found refuge in Saudi Arabia, where the movements cross-fertilised. Repressive Arab regimes have dumped both lots in the same prison cells, where they study and pray together. Under Salafist influence, the Brothers have adopted more classical jargon; and the recent Arab uprisings have helped the Brothers sway fellow Salafis into pondering whether civil opposition might not be better at changing regimes than setting off bombs.

In Gaza the rival schools have sometimes clashed. In August 2009 Hamas men stormed a southern Salafist mosque, after its preacher declared his own Islamic emirate. Over two dozen were killed in the ensuing shoot-out. But Gaza's

peculiarities are particularly attuned to the Salafist message, and the movement there continues to grow. Its world view of non-Muslims pitted against Islam seems to match the reality of Gaza: a trading crossroads that enemies of Islam have turned into a territory under siege. The flight of many foreign aid workers after Mr Arrigoni's killing only compounds that Manichean view. Israel's dismemberment of Palestine fits the rejection by Salafists of the nation state and their long-term aim of a global Islamic Utopia. And the Salafists' derision of Hamas for seeking periodic ceasefires with Israel and for shrinking from applying full-scale Islamic law in Gaza has begun to strike a popular chord. Why did Hamas bother to overthrow their secular rival in Fatah, some Gazans ask, if it ends up acting in much the same way?

Some of Hamas's rank and file are susceptible to the Salafist message. Video-clips of Salafist preachers circulate among them. In the welcome note on his website, the head of the Hamas-run interior ministry's "commission for political and moral guidance" calls for a global caliphate. Hamas prison guards have helped captured Salafist leaders to escape. And Hamas has refrained, for fear of a backlash, from its past practice of dragnet detentions. One of the four men Hamas says it is seeking in connection with Mr Arrigoni's kidnapping may be one of its own Gaza policemen. For Hamas, which wants to be both a government and a "resistance" movement, purging Gaza's Salafists increasingly means purging itself.

With civil dissent quashed by Hamas, Salafists are seeking violent outlets for expression. Two Salafists suspected of Mr Arrigoni's murder were killed in a shoot-out after a Hamas raid on their hideout in central Gaza on April 18th. One group has waved a letter from Osama bin Laden as proof of its clout. And after Hamas recently captured the Salafists' guiding figure, Abu Walid al-Maqdisi, another group of Salafists declared that foreigners in Gaza were fair game for kidnapping.

Where Salafists have greater latitude, they are trying out new methods. In Jordan, where they blew up three hotels a few years ago, they are now protesting openly in the streets, albeit separately from other Jordanians, for fear of *ikhtilat*-rubbing shoulders with women. One lot held a press conference to call for the release of their leader, Muhammad al-Maqdisi, who was once a mentor of al-Qaeda in Iraq.

In eastern Libya Salafist groups have given their allegiance to the fragile rebels' National Council, though it is not applying *sharia* law. And though elections remain an anathema to them, on the grounds that God, not man, should dictate how his realm is governed, acolytes on websites are asking increasingly awkward questions about political participation. After Egypt's recent referendum on a new constitution, a Salafist preacher in Cairo celebrated the yes vote as a "raid via ballot boxes".

Most Salafist jihadists still want to have their *felafel* and eat it. A few of their brethren-for instance, the Libyan Islamic Fighting Group and Egypt's Gama'a Islamiya-seem for the moment to have disavowed violence, as other more moderate Islamists, such as the Muslim Brotherhood, now do. But most Salafists still want to bomb and fight. Recent clashes between puritans armed with baseball bats and Jordanian police in Zarqa, a largely Palestinian shanty town north of the capital, left 90 hurt.

Index | Middle East & Africa

Palestinian reconciliation

Is it for real?

If Palestinian reconciliation happens, it could change the face of the region

THE announcement on April 27th that the Palestinians' two main factions, the secular-minded Fatah and the Islamist Hamas, will form a government of national unity and hold elections could be a dramatic game-changer in the long-stalled Middle East peace process-if it actually happens. And even if it does not, a new dynamic in Palestinian politics, generated by the revolution in Egypt, is taking shape. Most Palestinians will be heartened by the news. Most Israelis are likely to be dismayed.

The two Palestinian factions, bitter rivals for years, have made various desultory efforts to settle their differences. After Hamas won an election in 2006, the groups engaged in ceaseless clashes until, a year later, they formed a unity government that rancorously collapsed after a few months. Since then, Hamas has run the Gaza Strip on its own, more or

less under siege by Israel, while Fatah's leader, Mahmoud Abbas, as president of the Palestinian Authority (PA), has run the West Bank, more or less in cahoots with Israel.

Israeli governments have viewed Fatah as a relatively moderate bunch with whom business may at a pinch be done, since it recognises Israel and espouses a two-state solution, whereas they tend to see Hamas as an irredeemable terror group that must be repeatedly clobbered, since it says Israel should be destroyed and a unitary Palestinian state established on the entire territory occupied by Israel. Binyamin Netanyahu, Israel's prime minister, says Mr Abbas's PA must "choose between peace with Israel and peace with Hamas...Peace with both of them is impossible."

In the past Hosni Mubarak's government in Egypt strongly favoured Fatah, since Hamas is an offshoot of the Muslim Brotherhood, which the Egyptian authorities loathed. But Egypt's new foreign minister, Nabil el-Araby, has made it clear that the new government will be strenuously even-handed. Among other things, it may well loosen the siege of Gaza, which Mr Mubarak's government tacitly enforced.

If-and it is still a big if-a Palestinian unity government does emerge, Hamas is likely to move towards an acceptance of the two-state deal. And Israel, amid a growing sense of isolation in the face of the winds of Arab change, may drastically have to alter its calculations.

Index | Middle East & Africa

Yemen's president

On his way at last?

A deal may have been struck to remove the president



At least he wasn't hung from a lamp-post

AFTER nearly three months of protests and more than a hundred deaths, a deal has been brokered by the Gulf Co-operation Council, a club of six Sunni monarchies, that provides for Ali Abdullah Saleh, Yemen's beleaguered president, to step down within 30 days. Presidential elections would then be held within 60 days.

The General People's Congress, Mr Saleh's ruling party, and a coalition of opposition parties have agreed to the pact, which contains a string of conditions. Mr Saleh and his family will be immune from prosecution. He will hand power to his vice-president, who will run a unity government for the month before Mr Saleh finally shuffles off.

The decision by Yemen's opposition parties to accept the deal, due to be signed in Riyadh on May 1st, has opened a rift with the protesters on the street. Demonstrations erupted across the country as news of the agreement spread; another 20 protesters were killed. A civil-disobedience campaign has been organised, with twice-weekly closures of shops, schools and government offices planned. For weeks the protesters, an increasingly diverse bunch, have been demanding Mr Saleh's immediate removal. They particularly dislike the promise of immunity. And they fear the deal may result in jobs just being swapped among those already in power.

The president struck a defiant note in a television interview on April 24th. "Who should I hand power over to? Insurrectionists?" he asked. Nonetheless, it is hard to see how he could have clung on much longer. His regime is divided and the protesters in the streets show no sign of going home. Yemen has a big army-by some estimates it gets four times as much cash as the public services do-but many of its regular troops have gone over to the protesters. Ali Mohsen Ahmar, a kinsman and general who was a long-time ally of Mr Saleh, abandoned the president after more than 50 protesters were shot in a single day in March. The president still has the backing of elite units. The security service believed responsible for much of the violence is run by his son and nephews. But their support was not enough to save him.



What comes next is unclear. An alliance may emerge between General Ahmar and Hamid Ahmar (no relation), a businessman whose family has funnelled Saudi funds to Yemen's tribes for years and who is said to subsidise the main Islamist opposition party, Islah. The United States and Saudi Arabia, which orchestrated the arrangements for Mr Saleh's departure and are wary of al-Qaeda's local branch exploiting instability south of the porous Saudi-Yemeni border, will be watching like hawks.

Index | Middle East & Africa

The battle for Libya

Pressure points

The heat is on Muammar Qaddafi



IN A war where the balance of advantage appears to shift from one side to the other almost every day, identifying a turning point is bound to be risky. But developments in the besieged city of Misrata in the past few days could be one of them.

On April 23rd and 24th there was something close to euphoria on the rebel side when forces loyal to Colonel Muammar Qaddafi began to pull out of the devastated central parts of the city, where they had murdered and terrorised the town's people for the best part of two months. The increasing effectiveness of rebel fighters, some armed with Western anti-tank weapons smuggled in from Benghazi by sea, was one factor behind the withdrawal of the government snipers and mortar teams. Another was the steadily mounting toll of NATO air strikes on loyalist supply lines. A recent announcement by the Pentagon that it was throwing two armed Predator drones into the fray may also have had a psychological impact.

The Orwellian spin from a government spokesman in Tripoli was that responsibility for bringing the battle for Misrata to an end was being handed over to loyalist tribes who would either negotiate a ceasefire or, if that failed, fight with less concern for the welfare of civilians than the regular Libyan forces had shown.

There was little sign of the tribesmen arriving on the scene but the rebels' mood of optimism was quickly punctured. Even as they took control of previously contested parts of the city, the port area, Misrata's lifeline to the outside world, came under heavy rocket and mortar bombardment from loyalist forces that had taken up positions to the east of the city. Two ships that had docked, one ferrying migrant workers to safety, the other carrying Red Cross supplies, had to put out to sea rapidly to avoid being hit.

But there may have been an element of desperation in the attacks, as the open terrain from which they were launched gave little protection from NATO aircraft. Within hours, late on April 26th, the counter-offensive was halted, at least temporarily, by air raids. The travails of Misrata are by no means over. The government may plan terrorism in the city. But the likelihood of Misrata being retaken by Colonel Qaddafi, with disastrous humanitarian and strategic consequences for the rebel cause, which seemed imminent only recently, has receded-and with it the regime's hope of hanging on by establishing a de facto partition between Libya's east and west.



Nor is Misrata the only point of pressure on Colonel Qaddafi. In the past few days, NATO's targeting strategy has evolved. Recognising that air power could only have limited effects against dispersed forces engaged in small-scale tactical engagements that have little effect on the overall strategic position, NATO is stepping up its attacks on the palaces,

military headquarters and communications centres that are critical to the regime's ability both to sustain its campaign of violence and to convince wavering supporters that it will survive. On April 25th Norwegian F-16s hit Colonel Qaddafi's residential compound in the middle of Tripoli, destroying administrative offices and a command centre. After a separate attack, state television was briefly forced off the air.

The raids were seen in some quarters as an attempt to kill Colonel Qaddafi. Two Republican members of the Senate armed services committee, John McCain (just back from meeting rebel leaders in Benghazi) and Lindsey Graham, told NATO to show more aggression in attacking the regime itself. Mr Graham said: "Go to Tripoli, start bombing Qaddafi's inner circle, their compounds, their military headquarters in Tripoli... I think the focus should now be to cut the head of the snake off. That's the quickest way to end this."

Britain's foreign secretary, William Hague, and defence secretary, Liam Fox, were keen to send a similar message to Tripoli. "If the regime continues to wage war on its people, those who are involved in those command-and-control assets need to recognise that we regard them as legitimate targets," said Dr Fox.

Though killing Colonel Qaddafi would be regarded as a wonderful stroke of luck, the aims of the new targeting policy are twofold. The first is to cut Tripoli off from the forces doing the fighting; the second is to try to shift the risk calculus of the people around Colonel Qaddafi, including his family, in favour of flight.

Nigeria's election

The turbulent north

The president should pay more attention to northern poverty



Bad losers

WHEN Nigeria's presidential election results started trickling in on April 17th, showing that the incumbent, Goodluck Jonathan, was heading for victory, youths in the country's north started to burn buildings in protest. The election itself was hailed as an improvement on the rigged and violent polls that have kept the ruling People's Democratic Party in power for a dozen years. But its outcome has widened old divisions in Africa's most populous country, home to 150m people and over 250 ethnic groups.

Hundreds are now thought to have died in the post-election violence, though authoritative figures are hard to come by. A local human-rights group says that more than 500 people were killed just in Kaduna, one northern state, in the worst of the violence between April 17th and 19th. Human Rights Watch, a New York-based lobby, said that 311 bodies had been found in one mass grave alone. A heavy military presence and curfews in the worst-hit states, including Kaduna, Kano and Bauchi, have since brought an edgy calm.

Many voters in the mostly Muslim north plumped for Muhammadu Buhari, a former military ruler who hails from the landlocked and impoverished region. Thinking he had been the victim of rigging by Mr Jonathan, a Christian from the oil-rich southern delta, youths burnt the homes of local Muslim leaders denounced as PDP stooges. In Kaduna this soon led to wider sectarian clashes.

State governorship polls on April 26th, which should conclude a month of elections for national and local posts, passed off with a low turnout and high security in much of the north. Bombs went off in Borno state before the poll and on the day itself, killing at least three people. Previous explosions there have been claimed by Boko Haram, an extreme Islamist sect. Polls in Kaduna and Bauchi, deemed the most volatile states, were postponed by two days to let extra troops be deployed.

But soldiers and curfews are only a temporary solution. The youths are angry not just because of this month's election results. Northern Nigerians lag behind their southern counterparts on almost every measure of development, even though poverty blights the whole country. The average annual income of $718 per person in the northernmost 19 states is half the figure in the remaining 17 states, according to UN data. Literacy rates and child nutrition are also poor.

Rather than foster industries, successive governments have relied on the oil revenues of Africa's largest energy producer for their income. Such neglect has hit the north, far away from the coast's ports and banks, a lot harder. "If those youths were employed, they would have just gone to work on that Monday morning," says Ismaila Zango, a sociology lecturer in Kano, the north's biggest city, referring to the day Mr Jonathan's victory became clear. "What happened then was just the beginning-unless there is development."

Many northerners hope the president will make the development of their region a priority, now that it seems to pose a security threat. In recent years the PDP has paid off and tried to rehabilitate and retrain insurgents in the delta, because their attacks have threatened the oil industry that provides around 80% of government revenues. Unrest in the north has bothered those in the corridors of power a lot less. If they were wise, they would change tack.

Index | Europe

The Polish government

Tusk in time

Poland's politics is stable at last. That is good-but no excuse for complacency



DONALD TUSK is an emollient figure in a quarrelsome country. This formula works for the Polish prime minister. His government, elected in 2007, will serve out a full term, a rarity in a fractious and factious place. He is heading for victory in a general election in October, either with his coalition partner, the rural People's Party, or with the ex-communist Democratic Left. A Polish prime minister winning reelection would be an historic first.

Stability marks a dramatic shift. Since 1989 politics has mostly featured fast changes and high drama. Dodgy populists who hogged the headlines have vanished. Mainstream parties once changed names, merged and split with bewildering speed. Now Mr Tusk's Civic Platform is a political fixture. So is Law and Justice, the main opposition party, led by Jaroslaw Kaczynski.

Part of Mr Tusk's success stems from his rival's failings. Mr Kaczynski seems fixated by last April's plane crash in Smolensk, which killed his twin Lech, Poland's president, along with scores of senior officials. Rows over memorials and commemorations, laced with conspiracy theories (Mr Kaczynski hints at foul play and a cover-up) enthuse some voters, but bemuse or repel others. If he loses in October, Mr Kaczynski may go. A new leader who junked his wild talk might offer stronger conservative competition for Mr Tusk.

But not yet. Consumed by peripheral issues, the opposition has largely failed to attack the government's weak points. One is the overlap between party funding and business. Mr Tusk takes a tough line at the top (eg, in a lobbying scandal over a gambling law); but at the grassroots things are murkier. A second is Poland's dire infrastructure. Despite a big road-building programme, mostly paid for by the European Union, Polish roads are among the worst in the EU: 35 people died on them over Easter.

Mr Tusk's foreign-policy record is somewhat mixed. Relations with Germany have warmed. America's Barack Obama will visit Warsaw next month. But Poland has been irksomely hesitant over Libya. This is odd for a country that had promoted common European defence and security as a priority for its forthcoming six-month presidency of the EU.

Poland continues to champion Ukraine. But an attempt to engage Belarus collapsed after the regime's crackdown in December. Better relations with Russia have stopped anti-Polish propaganda there and boosted trade. But even Mr Tusk says that the main result is just to "remove drama" from bilateral ties. A Russian report on the Smolensk plane crash was slow, slovenly and one-sided. Meanwhile a squabble with Lithuania has annoyed neighbours that would prefer to see Poland as a leader, not a score-settler. Asked to list successes, officials point hesitantly to the recent help that Poland has given to Moldova.

With the opposition out of action, the most potent criticism of Mr Tusk and his government is coming from the media and think-tanks. They excoriate a recent pension reform as confiscatory. They highlight the government's sloth in honouring its election promises to reform Poland's clogged and clunky public administration. Chronic economic ills include low labour-force participation and incontinent public finances. The government trumpets strong growth (see article); but luck counted as much as judgment in that.

Worries over the government's preference for form over content has prompted outcry from some Civic Platform types, such as Marcin Meller, the editor of *Playboy Poland* (and a serious public figure). Civic Platform's poll ratings have dipped a bit, mainly to the benefit of the Democratic Left. That may reflect a rising vote for a secular, socially liberal brand of politics so far little seen in Poland. Yet Civic Platform is doing well, scoring 44% in the latest poll.

Mr Tusk shrugs off all criticisms of inaction. His record rests on electoral success, beating Law and Justice time and again-most recently in the presidential election in 2010, won by his lacklustre nominee, Bronislaw Komorowski. His next goal may be to win the presidency himself in 2015, sealing his position as Poland's dominant post-communist politician.

Yet the risk is that this would also mean four more years of cautious, PR-conscious government. During a visit to London recently, Mr Tusk highlighted a signal feature of the Polish character. Impatience, he said, is a "national asset": Poles want things to get better quickly. They may indeed prefer something more inspiring than Mr Tusk's affable but low-key style. But it is not on offer at the moment.

Index | Europe

Spain's public finances

Regions to be worried

Local autonomy makes it harder to cut the budget deficit

THESE are unhappy days in Catalonia. Outside the regional parliament in Barcelona recently stood a picket of noisy secessionists, including a bare-breasted woman with a separatist flag around her neck. A road was blocked by public-health workers fighting cuts. An earlier traffic snarl was caused by demonstrators cutting access roads into the city.

Catalonia has a long separatist tradition, but the anger in Barcelona has more to do with the euro crisis than with an independence movement that won only modest support in a recent informal referendum. Last year Spain teetered on the brink over which Portugal, Greece and Ireland have toppled. It stepped back only by trimming a budget deficit that exceeded 11% of GDP in 2009. The Socialist prime minister, Jose Luis Rodriguez Zapatero, promises to get it down to 6% this year.

That is hard in decentralised Spain, where 17 regional governments account for 37% of public spending. There is plenty of fat in bloated regional administrations: a study by Mario Garces for FAES, a right-wing think-tank, finds that their payrolls rose by 42% over the four years to early 2010. Last year Catalonia (which funds 335 public companies, foundations and other public bodies) was one of the most profligate. It overshot its share of the regional deficit target by 2.4 percentage points. Castile La Mancha did worse, producing a 6.5% deficit. Overall the regions' deficits amounted to 2.83% of GDP, out of a national deficit of 9.24%.

This year's regional target set by Madrid is 1.3%. Catalonia's finance boss, Andreu Mas-Colell, says this would require a 20% spending cut. "What country could do that?" he asks. He does not want to administer such a sudden shock to government services, including health, education, policing, the courts and social services. His business-friendly Convergence and Union party of Catalan nationalists favours austerity, but wants more time. So he talks rebellion. "This year we are cutting spending by 10%," he says.

And therein lies a problem. Catalonia is Spain's second-biggest region, after Andalusia. If it refuses to cut any more, it could add some 0.25% of GDP to Spain's deficit. And what might jittery bond markets think if other regions were to join a Catalan revolt? The budget head in Madrid, Carlos OcaÃ±a, insists he can bend wills by refusing permission to take on extra long-term loans. He squashes talk of a regional rescue fund. "No bail-outs," he insists.

Almost as worrying is the way Catalonia overshot, with Madrid late in spotting the problem. Some blamed November's regional election there. The outgoing Socialist-led coalition wanted neither big cuts nor publicity for their overspend before the poll. Thirteen other Spanish regions will vote on May 22nd. Are some hiding overspends? There is little hard evidence, but much suspicion: the government is now imposing quarterly reporting.

Mr Zapatero claims to have imposed austerity without hurting core services. Mr Mas-Colell disagrees, accusing the Socialists of leaving the dirty work to others and claiming that Madrid is refusing to hand over funds it owes Catalonia. Mr OcaÃ±a points to the 30% of regional spending on other fripperies. Angry Catalan doctors complain that health cuts coincide with funding for a new regional television sports channel. Mr Mas-Colell says a deal with Madrid will emerge, but it did not happen at a meeting on April 27th, making bond markets jumpier. Will the rumble in the regions mean that Spain misses its deficit target? No, insists Mr OcaÃ±a. "We met it last year, and we will again." Things may become clearer in late May.

Index | Europe

Germany's labour market

Across the Oder

This weekend a nervous Germany must let in workers from the east



POLES driving across the Oder into Germany seem less scary than Tunisians coming to Italy by sea. Yet Germans are edgy about May 1st, when their labour market opens to citizens of eight east European countries that joined the European Union in 2004. Germany (and Austria) put the day off as long as possible. Seven years ago the economy was weak and unemployment was high. Letting newcomers in would have brought benefits (it did to Britain) but Germany dared not grasp them. Now its economy is the envy of Europe and employment is near a record. The eastward opening should be less alarming.

"There are big fears in the low-wage sector," says Gunter Baaske, the labour minister of Brandenburg, on the Polish border. Trade unions fret about "wage dumping" in tourism and gastronomy. The government has fixed a minimum wage for temporary work, to stop eastern undercutting. On May 1st Germany must also open up to eastern construction firms and industrial-cleaning companies. Builders, who pay higher social-security contributions than their competitors, are nervous.

The authorities expect a trickle of eastern workers, not a flood. Germany has already eased restrictions for some. The government guesses that 100,000 more a year will come from the eight countries (Romania and Bulgaria must wait until 2014). The IAB, the research arm of the Federal Employment Agency, thinks 140,000 a year is possible. That is hardly

enough to make up for the shrinkage of Germany's ageing labour force, which is expected to shed 5m workers over the next 15 years.

Employers facing shortages hope for relief. The number of school-leavers has fallen by half in east Brandenburg since 2004, says Ulrich Lehmann, head of training at the local chamber of industry and commerce. He hopes to lure young Poles to apply for German apprenticeships, which pay a stipend and combine school work with on-the-job training. Yet he is not optimistic. Poles now learn English, not German (partly because Britain was more welcoming). Those who come may bypass Brandenburg on their way to the richer south and west. German hospitals and old-age homes need 400,000 extra carers over the next decade. But easterners who want this sort of work have already moved to other countries. May 1st could be, disappointingly, a non-event.

Yet Hans-Werner Sinn, of the University of Munich, argues that it will be a bigger deal than most Germans think. The ten east European EU members have a total population of more than 100m, he pointed out recently. Popular destinations for migrants, like Britain and Spain, are in crisis; some will now go to Germany. New migration will boost growth and solve the looming labour shortages "on its own", Mr Sinn says. More ominously, idlers will exploit the generous welfare system. If that happens, they will be as unwelcome in Germany as Tunisians are in Italy.

France and globalisation

We'll always have Paris

What the new Champs-Elysees says about France



At the lower end of the avenue

A GIANT naked male torso towers over the lower end of the Avenue des Champs-Elysees. Or, rather, a black-and-white photograph of a male model's glistening muscles is draped across the four-storey facade of a soon-to-open Abercrombie & Fitch store. The unveiling next month of the first French outlet for the American retailer, renowned for improbably toned, half-dressed sales assistants and hooded sweatshirts, will delight teenagers, bemuse parents-and confirm that France's best-known avenue has gone global.

When the first majestic lines of trees were planted in the 17th century by Andre Le Notre, Louis XIV's landscape architect, the Champs-Elysees was a shady walk. It has long since been built up and turned over to shops, cafes and offices. But the avenue still has special meaning, both as an embodiment of French elegance and as a stage for displays of national pride

and military might. Unlike London's Bond Street or New York's Fifth Avenue, the Champs-Elysees is where soldiers march, tanks roll and planes fly past in the annual Bastille Day parade every July 14th.

These days, though, it is getting hard to find much that is French on the Champs-Elysees, besides a few cinemas, car showrooms and luxury brands. International chains such as H&M (Swedish) and Tommy Hilfiger (American) have opened big stores, joining other foreign implants like Zara (Spanish), Virgin Megastore (British), Disney, McDonald's and Gap (all American). Even Britain's Marks & Spencer, which quit Paris a decade ago, is coming back soon, bravely hoping to sell women's clothes and English sandwiches on the Champs-Elysees.

Plenty of Parisians are dismayed. Earlier this year, owing to soaring rents that make the Champs-Elysees the world's fourth most expensive shopping street, according to Jones Lang LaSalle, a property firm, the post office closed its doors. "It will no longer be anything but a clothing street," sniffed Lyne Cohen-Solal, a Paris councillor. A few years ago the town hall unsuccessfully appealed to the courts to block H&M's arrival. "The Champs-Elysees is mythical," declared Francois Lebel, mayor of the local borough. "The image of France is at stake."

Like their politicians, the French always sound defiantly anti-globalisation. In polls they are far more hostile to free markets than Germans, Chinese or Russians. Yet when it comes to buying or eating foreign stuff, they are as enthusiastic. France is one of the most profitable markets for McDonald's. Judging by the dress code of French teenagers, there will be long queues outside Abercrombie & Fitch-though whether to buy the hooded tops or to eye up the sales staff may be another question.

The Turkish opposition

Gandhi's rise

The main opposition party will lose in June, but it is looking more coherent

IN 1938 Turkey's army crushed a rebellion in the south-eastern province of Tunceli. Villagers were burned alive or gassed. The government admitted that around 15,000 mainly Alevi Kurds, who practise a liberal version of Islam, had died, though survivors spoke of at least twice as many. The tragedy is one of the darkest pages in modern Turkish history and remains taboo because it took place when Ataturk was alive and the secular Republican People's Party (CHP) that he founded was running the country. Locals say this makes it a miracle that their own Kemal Kilicdaroglu, whose father was then among thousands of exiled Alevis, is now the CHP's leader.

When the 62-year-old Mr Kilicdaroglu was elected by the CHP convention last May, few believed he would ever match Turkey's charismatic and popular prime minister, Recep Tayyip Erdogan. The old guard, who had kept the party out of power for the previous 15 years, blocked his every move. The new leader could not even utter the word "Kurd." No matter that his own village had been almost destroyed in the army's scorched-earth campaign against rebels of the separatist Kurdistan Workers' party (PKK).

Mr Erdogan's mildly Islamist Justice and Development (AK) party remains strong. Recent polls suggest that it will win a third term of single-party rule in June, with 45% of the vote to the CHP's 28%.

Yet such numbers also reveal the gains the CHP has made. In the 2007 election it scraped in a distant second, with 21% to AK's 47%. Over the past year Mr Kilicdaroglu has grown bolder. He has purged the party of ultranationalist hardliners, who almost got the CHP booted out of the Socialist International. Gone are the tired rants of his predecessor about a looming Islamist takeover. The CHP's election programme reads like a liberal manifesto. The army's internal service law, which justifies coups, will be amended. Mandatory army service will be cut from 15 months to six. Kurds (the word is now allowed) and Alevis will be given greater freedom. The 10% national threshold needed to win seats in parliament will be halved. The CHP candidates' list includes 109 women.

Mr Kilicdaroglu's economic vision is somewhat blurrier. He has promised poor families a bonus of 600 Turkish lira ($390) a month. When Mr Erdogan asked where the money would come from Mr Kilicdaroglu's response was Delphic: "my name is Kemal." Even Mr Kilicdaroglu's most avid fans are unhappy about his decision to field two candidates from the so-called Ergenekon gang, a shadowy network of army officers and coup-mongers accused of plotting to overthrow the government. His grasp of foreign affairs remains shaky, although he has promised to improve relations with both America and Israel.

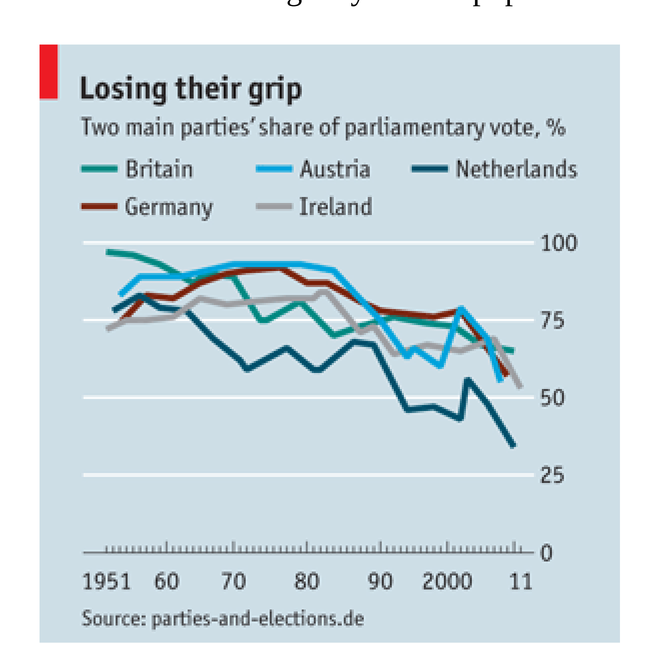
One drawback is that, at grassroots level, the CHP is a shadow of the AK's electoral machine. But against this is Mr Kilicdaroglu's unassailable probity. "Kemal is clear as glass," raves Imam Firik, an Alevi spiritual leader. Mr Kilicdaroglu, nicknamed Gandhi, shot to prominence by probing AK corruption. Unlike Mr Erdogan, he is neither confrontational nor macho. He may not be the next prime minister. But he is becoming a tougher opponent.

Europe's political parties

The shrinking big tents

Across western Europe, the leading parties are shedding votes

A TUBBY, bespectacled man leads his Eurosceptic party into third place in a tight Finnish election. In a German state ruled by the Christian Democrats for 58 years, the Greens come top, led by a former teacher who will be the party's first state premier. In the Netherlands the success of an extravagantly coiffed populist has led mainstream parties to court him.



Across Europe, once-dominant political parties are seeing their support fragment (see chart). Some "natural" parties of government, such as Fianna Fail in Ireland and the Social Democrats in Sweden, are out in the cold after decades of hegemony. In Britain and Germany systems in which power alternated between centre-left and centre-right for generations have been upset by the strength of smaller parties. A new politics has emerged in which old allegiances have frayed, political identities have blurred and voters' trust in familiar parties has crumbled. One result is that voter turnout has fallen almost everywhere.

Recent elections have laid bare the established parties' woes, but the causes go back decades. One is the decline of institutions that linked individuals to parties-the church in countries with a tradition of Christian democracy, or trade unions that channelled funds (and votes) to left-wing parties. With pews empty and unions shrinking to a mostly public-sector rump, old parties are seeing their membership lists shrivel and their financing dry up.

Class allegiances and tribal ties have also lost their force. Britain's Conservative and Labour parties could once rely on millions of "votes for life". No longer. Voting has become more a matter of consumer choice than of ideological fealty. The cosy consensus that so often marked post-war politics is gone. "People are no longer spending 20 years in a party, a union or even a job," says Bruno Cautres at Sciences Po university in Paris. "They don't like organisations to speak for them; they want to speak for themselves."

The rise of globalisation and the transfer of powers to Brussels have also made old parties less potent. In the decades after the war, when strong forces forged political consensus, economies were growing fast and demography seemed favourable, the big-tent parties could make a clear offer to voters: state health care, government-funded pensions. Today, when governments seem unable to stop factories shifting jobs to Asia or immigrants flooding in, voters find the big parties less appealing.

The fragmentation of the big parties makes forming governments harder. Now that Germany has five national parties instead of three, the country is likely to see more awkward coalitions, or grand coalitions in the Austrian style. The process of forming Dutch governments has become ever more elaborate. Belgium has had no government for over a year.

As the big parties flounder, a cadre of challengers is on the march. In some countries former fringe parties have joined the mainstream, often holding the balance of power. Britain's Liberal Democrats, whose predecessor party took just 3% of the vote in the 1950s, joined a Tory-led coalition after winning 23% last year. Germany's Greens, who are soaring in the polls, may join the federal government again after the next election. Regional parties are growing in such countries as Britain, Italy and Spain, sometimes joining or becoming key supports for national governments.

But the phenomenon that has grabbed most attention is the rise of populist parties often termed "far right". The label can be misleading. In the Netherlands Geert Wilders's attacks on Islam are partly about the religion's hostility towards the sexual and other freedoms the Dutch prize. Some Scandinavian upstarts frame their anti-immigrant stance as a defence of the welfare state. Many newcomers eat into the votes of left-wing as well as right-wing parties.

Yet they share a dislike of immigrants and the European Union. Their leaders, often charismatic, telegenic personalities, rail against the establishment both at home and in Brussels. Timo Soini's True Finns may enter government after winning votes by arguing against using the taxes of hard-working Finns to prop up the bust economies of lazy southern Europeans. Marine Le Pen has moved France's National Front away from anti-Semitism towards more resonant concerns, such as Muslims praying in the streets or the dangers of globalisation. Polls suggest she may reach the run-off in next year's presidential election, as her father did in 2002.

Not all new parties thrive. Yet several are changing national politics. In Denmark the anti-immigrant Danish People's Party has propped up a minority government for a decade, securing concessions on immigration in return. In France President Nicolas Sarkozy is wooing National Front supporters by making hardline noises on Islam and crime. Angela Merkel's recent U-turn on nuclear power in Germany was prompted in part by (justified) fears that her Christian Democrats risked losing more votes to the Greens.

This suggests that the mainstream parties are running out of coping strategies. "This is not going away," says Andre Krouwel at the Free University in Amsterdam. "The economic crisis, the Arab spring, immigration pressures on Europe-it is only going to get worse for the established parties." Wheezes such as slashing party-membership costs, tried by the French Socialists in 2006, or experiments in social-networking media are no match for the long-term political, economic and cultural forces weakening the big parties.

The next threat may be splits. "Without a strong ideology, there's little reason why big parties should hold together," says Peter Mair of the European University Institute in Florence. "If you're an ambitious politician, why not form your own grouping?" Mr Wilders belonged to the liberal VVD before breaking away in 2004. His success since will encourage others.

Index | Europe

Charlemagne

Another project in trouble

First the euro, now Schengen. Europe's grandest integration projects seem to be suffering



FOR most Europeans, the benefits of integration are clearest when they travel. Crossing most borders, whether for work or pleasure, no longer requires changing currencies or presenting a passport. Yet both great unification projects are under threat. The financial crash and sovereign-debt crisis endanger the euro. Now the Arab spring has brought in thousands of north African boat-people, undermining the Schengen borderless zone.

The response to the euro zone's upheavals has been "more Europe": a bigger European bail-out fund, more scrutiny by Brussels of national economic and fiscal policies. The reaction to the migration crisis at first involves less Europe. An Italian-French summit in Rome on April 27th called for Schengen's rules to be revised so that national governments can more easily reimpose border controls "in case of exceptional difficulties". In effect, this already happened when the two countries traded insults over 20,000 Tunisian migrants washed up on the Italian island of Lampedusa. Italy wanted other EU members to take some of the migrants. When they refused, it resorted to a *furbizia,* a ruse: it issued the boat-people with temporary residence permits, not to settle in Italy, but to speed them on their way across the Alps. France responded by rounding up thousands of migrants near the frontier-at one point even stopping a train from the Italian border town of Ventimiglia-and sending them back to Italy.

There is much theatre in all this. Both Italy's prime minister, Silvio Berlusconi, and France's president, Nicolas Sarkozy, are weak and face a loud anti-immigrant far right. Their joint letter to Brussels was an attempt to show they were on top of the crisis. Yet it contained little that had not already been proposed by the European Commission, and it represented a defeat for Mr Berlusconi: he backed France's wish for more internal border controls (against Italy), but got only partial support for his call for greater "solidarity". France agreed there should be burden-sharing in the case of a "massive influx" of refugees fleeing the war in Libya-but, by implication, today's Tunisian economic migrants are for Italy to manage (albeit with financial and other help to strengthen its borders). And Mr Berlusconi acknowledged that France, in fact, absorbs five times as many migrants a year as Italy.

None of this impresses right-wing and anti-immigrant parties that are on the march across Europe. The Northern League, Mr Berlusconi's coalition partner, which recently questioned whether Italy should even remain in the EU, has complained of Italy's "becoming a French colony". (It was also upset by Mr Berlusconi's acquiescence in the takeover of Italian companies by French firms and Italy's belated decision to join air strikes on Libya.) In France Marine Le Pen, leader of the far-right National Front, says only France's departure from Schengen can stem mass immigration (she also wants to give up the euro).

It is not just poor-world migrants who stir controversy. The long-cherished freedom of the EU's citizens to live and work anywhere in the union is sometimes contested too. Mr Sarkozy clashed bitterly with the European Commission last year over the deportation of Romanies to eastern Europe. Anti-Polish sentiment is on the rise in the Netherlands, which is

threatening to expel easterners who have been unemployed for over three months. Geert Wilders, the kingmaker better known for outbursts against Islam, has taken to accusing Poles of committing crimes, being drunk and stealing Dutch jobs.

Despite Eurocrats' faith in the benefits of labour mobility, Germany and Austria have maintained restrictions on workers from new members until the last possible day. On May 1st they must open their borders to workers from eight eastern countries that joined the EU in 2004 (see article). But workers from Romania and Bulgaria, which joined later, face restrictions until 2014. The two countries are being kept out of the Schengen zone largely at the behest of Germany and France, suspicious of corruption and lax border controls.

The euro zone and the Schengen area depend on trust: that each member will run sound public finances, and that each will control its borders. When trust breaks down, integration is in trouble. Yet there is a difference between the two projects. The break-up of the euro would be a severe economic blow to the whole club. More frequent border checks would merely be an inconvenience, slightly gritting up the single market.

Keep it open

That said, the single market is one of the EU's big achievements, and its "four freedoms" of movement-of people, goods, services and capital-are worth defending. So dealing with migration may yet mean more Europe. Just as the commission is monitoring euro-zone economies more closely, so it should also inspect Schengen border controls (these are now subject only to ineffective peer review). The EU also needs a co-ordinated system to sift economic migrants from real refugees so that wildly diverging national rules do not lead to "asylum shopping".

As well as hardening borders, Europe needs to relieve the external pressure. That requires co-operation from exporting countries to control the outflow and take back illegals. Before the Arab spring, dictators were, in effect, bribed to do this. Such Faustian pacts may well prove harder to strike now that north African strongmen have been toppled (Tunisia and Egypt) or are no longer friendly (Libya). Emerging Arab democracies may expect a better deal-including more aid, freer trade and some managed legal migration. This is the kind of package that the EU is best placed to negotiate.

Yet it still won't stop the migrants from coming. And, when Europe's external borders look like being breached, governments will still insist on being able to secure their own frontiers.

Economist.com/blogs/charlemagne

Index | Britain

Coalition woes

The one-year itch

The AV referendum and local elections will worsen already bad relations between the governing parties



ALTHOUGH the government's honeymoon with voters ended long ago, the love-in between the partners in coalition lasted almost a year. Differences between Conservatives and Liberal Democrats were aired privately. Relations between senior figures were effortlessly cordial. As recently as last month, Nick Clegg, the Lib Dem deputy prime minister, was caught joking with David Cameron, the Tory prime minister, that the pair would never find anything to disagree on. It was even suggested that coalition could lead to an electoral pact or outright merger.

Suddenly, the bonhomie has gone. A vicious campaign before the referendum on May 5th on whether Britain should adopt the alternative-vote (AV) electoral system (see article) has seen to that. The Lib Dems, who support the change, accuse the Conservatives, who do not, of exploiting the unpopularity of Mr Clegg. Chris Huhne, the Lib Dem energy secretary, has threatened legal action against Tory colleagues over their claims about the cost of converting to AV. Vince Cable, the left-leaning Lib Dem business secretary, has provoked Tories by suggesting gleefully that AV could lock them out of power in future. It may sometimes suit both partners to play up their disagreements but the current enmity is thought to be genuine.

Whatever the result of the referendum, the coalition will be wounded. A rejection of AV (which polls suggest is likely) could push Lib Dems who prize electoral reform above all else into seeking a way out of coalition. A challenge to Mr Clegg's leadership, perhaps from Mr Huhne, is mooted. Mr Cameron will have to give the Lib Dems some sops, such as progress towards an elected House of Lords, to ease the hurt.

But a vote in favour of AV could cause more damage in the long run. Tory MPs, who believe that Mr Cameron agreed to the referendum too easily after fluffing a general election that he should have won outright last year, will resent their leader deeply. They will demand compensation in the form of right-wing policies, which would gradually push the parties further apart. Things are so bleak that there is even talk of a snap election this year.

In reality, that is unlikely to happen. Indeed, the smart money is still, just about, on the coalition to last the scheduled five years. The Lib Dems, who are doing badly in the polls, have no incentive to provoke an early election. The Tories' support is holding up; they regard Labour's poll lead as soft. But they are not confident of winning a working majority in Parliament this year. Moreover, the coalition was never built on good personal relations alone. In their negotiations last May, the two parties found themselves agreeing on many issues, including fiscal policy and public-service reform. That has not changed.

Far more likely than a break-up is a tetchier relationship, with the Lib Dems stressing their differences with the Tories. But acting like an opposition within government could win short-term popularity among voters at the cost of long-term respect. Mr Clegg's strategy thus far has been to ensure that his party "owns" everything the coalition does. Only then, he calculated, would it get credit if the government is eventually seen to be a success.

The referendum is not the only thing on the ballot on May 5th. Adding to the sour mood in government are the losses both parties expect to suffer in elections being held on the same day in 279 English local authorities and to choose the devolved legislatures of Scotland, Wales and Northern Ireland. The campaign has been almost as bitter as the tussle over electoral

reform. Conservatives have accused Labour-run councils of responding to reduced grants by making cuts to vital services rather than waste and bureaucracy, all for the sake of turning voters against the coalition. The Tories fear that they might lose the bulk of the 900 council seats they gained in the equivalent round of elections in 2007.

As for the Lib Dems, if they lose ground to Labour in the north of England-ceding control of places such as Newcastle and Stockport-the country will look increasingly divided between a prosperous, pro-coalition south and a resentful north. In 2007 the party scored 26% of the vote. They are currently polling at around 10%.

It is of some small comfort to the coalition that many of the most vulnerable Tory councils in England can realistically be gained only by the Lib Dems, and vice versa. But May 5th will still be a good day for Labour. A strong base of councillors gives parties the infrastructure and local prominence to campaign effectively in general elections. Labour has already begun to rebuild the support that withered while it was in power-it did surprisingly well in last year's local elections-and is likely to make further gains. Labour may also prevail in Wales, though the Scottish Nationalists are ahead north of the border.

The aftermath of May 5th will be the biggest test so far of the coalition's togetherness, and perhaps of Mr Clegg's grip on his party. Even if it is passed, next year will be just as hard, as spending cuts bite. Optimists in government urge doubters to train their eyes on this parliament's later stages. The economy should be growing smoothly by then, and the structural fiscal deficit largely erased. Time should have healed the wounds opened by AV. They are probably right that 2014-15 will look better for the coalition than 2011-12. Staying together until then is the challenge.

Index | Britain

Privacy law

Free speech v private life

Draconian solutions to intrusions on privacy

JOURNALISTS like posing nosy questions. They are less happy when their own private lives come under scrutiny. In 2008 Andrew Marr, a leading broadcaster (and a former political editor of this newspaper), won a court order preventing media coverage of an affair in 2003, and of a baby thought to be his. On April 25th Mr Marr withdrew it, telling the *Daily Mail* he was "embarrassed" by the order, which he had sought to protect his family and the child (not his, a DNA test showed). "I did not come into journalism to go around gagging journalists," he explained.

The case comes amid a furore over court-ordered anonymity, in which footballers and other celebrities, as well as the former Royal Bank of Scotland boss, Sir Fred Goodwin, have won injunctions preventing media coverage of their private lives. But the headlines belie the complexity of the issue. Some cases involve attempted blackmail, where courts habitually protect the interests of victims, however prominent or naughty. Others involve family-law courts binding parties not to talk to outsiders, even to MPs. The main new element is that courts are trying harder to protect children from media reports of their parents' failings. A judge recently issued a rare "*contra mundum*" (indefinite and universal) gag order in a case about intimate photos of a married celebrity.

Campaigners see all this as part of a growing body of judge-made privacy law which unfairly constrains free speech. They are particularly upset by so-called "super-injunctions" whose existence cannot be reported. These are increasingly rare-none has been granted this year. And they are temporary, issued to protect an applicant's privacy pending a full hearing.

Some reform is clearly needed, and a committee of legal brains convened by a top judge will report shortly. But cynics think that the media is trying to distract attention from its own sins, such as "phone-hacking"-breaking into the voicemail of celebrities-which has led to criminal prosecutions. They note that even without blackmail, the "kiss-and-tell" business is lucrative, for both those peddling bedroom secrets and those that publish them.

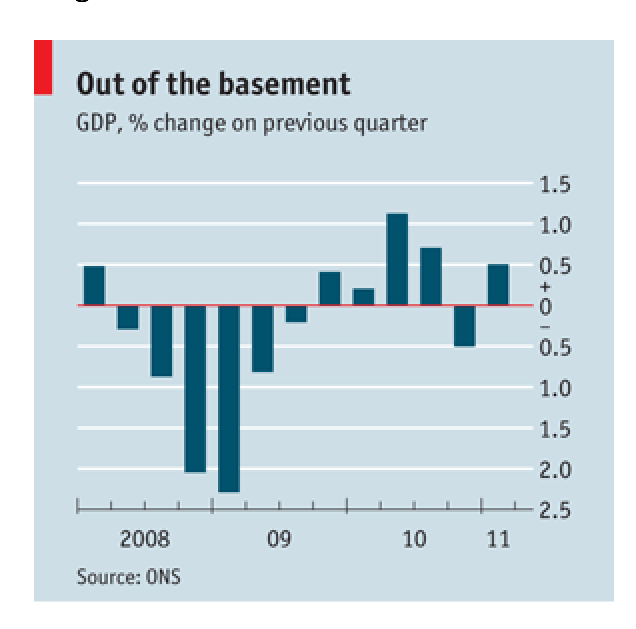
Politicians have little love for the media. But they also dislike the idea of overmighty judges. David Cameron, the prime minister, says he feels "uneasy" about judge-made privacy law imported from Europe. Yet the common-law principle of

"breach of confidence" is ancient, and Parliament debated the act that enshrines in British law the provisions of the European Convention on Human Rights, including both "respect for private and family life" and free speech. With or without a new statutory privacy law, judges will not view private lives as public property, even if some journalists wish otherwise.

GDP figures

Low bounce

The economy does not look strong enough to withstand a rise in interest rates



FOR once the soothsayers were right. Britain's GDP rose by 0.5% in the first quarter, an annualised rate of 2%. The increase was in line with forecasts and would be judged respectable had it not come after a fall in the final months of 2010, when snow kept customers away from hotels, restaurants and other opportunities for spending (see chart). As things stand, GDP has merely rebounded to its level of six months ago, and the recovery looks worryingly short of legs.

The underlying picture is not quite so gloomy. Most parts of the economy had a strong start to the year. Output in the services sector rose by 0.9% and in manufacturing by 1.1%. What held GDP back was a further sharp fall in construction, which lowered quarterly growth by 0.3 percentage points. The slump in the building trades in the past six months contrasts with an odd perkiness earlier. The sector has exaggerated the economy's recent struggles, just as it embellished growth in the middle of 2010.

Strip that volatility out, and GDP growth looks steadier. But it has been sluggish nonetheless: output rose by only 1.8% in the year to the first quarter. Optimists point out that Britain's statisticians tend to revise up estimates of GDP over time (often years later), in contrast to practice in America (see article). And the GDP figures are at odds with other data. Hours worked were 1.7% higher in the three months to February than a year earlier, which implies that productivity is flat and businesses have had to hire or extend working hours to generate extra output. Either that, or GDP is understated.

The economy's lack of zip has deepened concern about this year's fiscal tightening. January's VAT rise has added to the inflation stemming from oil prices and a weak pound, sapping consumer spending. Other taxes went up this month (though the low-paid were spared the worst) and public-spending cuts began in earnest. This withdrawal of fiscal support to the economy is not entirely new: the budget deficit shrank by around 1% of GDP in 2010-11. But a 2% fall in government jobs in 2010 was more than made up for by new jobs in the private sector.

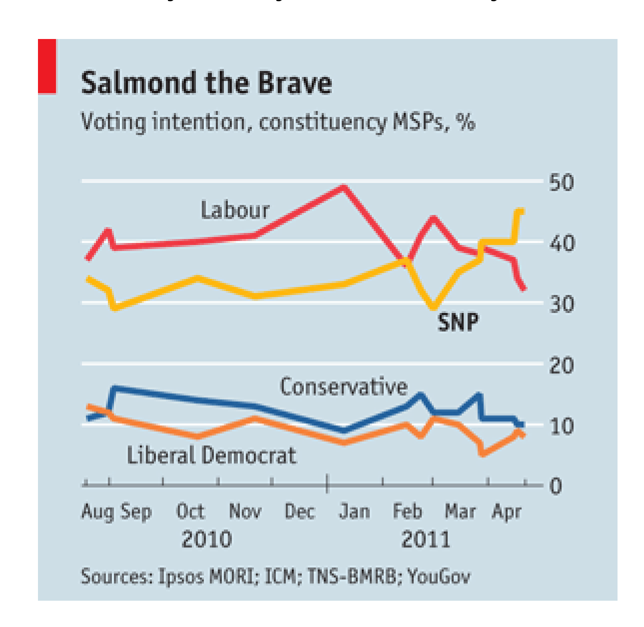
Still, there is enough anxiety about the economy's resilience to mean that the Bank of England's monetary-policy committee (MPC) is unlikely to raise interest rates on May 5th, when they next decide them. Three of the nine-strong

MPC have voted for an increase at the three previous meetings, and the MPC changes rates more often in months, such as May, when it makes its quarterly inflation forecast. But the minutes of the April meeting hinted that two dissenters were less convinced of their case. Most rate-setters worried that an increase might derail the recovery. These limp figures should not change their minds.

Elections in Scotland

Sea change

The surprising rise of the Scot Nats looks likely to deny Labour victory



ALEX SALMOND, Scotland's first minister, did not seem to have much going for him when he first set out to win re-election to the parliament at Holyrood on May 5th. His Scottish National Party (SNP) lagged far behind Labour, which looked set to return to power in Scotland, as well as winning outright victory in Wales and picking up hundreds of council seats in England. Labour's Scottish leader, Iain Gray, accused Mr Salmond and his minority government of a string of broken promises, such as failing to cancel student debt. Yet now opinion polls suggest a remarkable turnaround (see chart).

Mr Gray's campaign got off to a bad start. On April 7th he was ambushed at Glasgow Central railway station by demonstrators against budget cuts and scurried for refuge into a nearby sandwich shop, all in the glare of television cameras. Mr Salmond, in contrast, has had almost daily endorsements by celebrities ranging from pop stars to prominent businessmen and even opposition politicians, all stressing his leadership and competence. His performance in televised debates against the more diffident Mr Gray has been assured. In a survey this month by YouGov, a polling firm, 52% of those asked said Mr Salmond would make the best first minister. Only 27% chose Mr Gray.

Labour had hoped to pick up lots of votes from Liberal Democrats unhappy about their party's Westminster coalition with the Conservatives (who are, despite valiantly cheerful efforts by their Scottish leader, Annabel Goldie, still a toxic brand locally). But it seems to be the SNP that is winning over disgruntled Lib Dems.

North East Fife, for example, has been safe Lib Dem territory since the party's former leader, Sir Menzies Campbell, won the Westminster seat from the Tories in 1987. But the coalition's spending cuts are biting. The Royal Air Force station at Leuchars, just north of the university town of St Andrews and thought by Fife council to support some 1,900 jobs, is threatened with closure. So is a coastguard station nearby. With polls showing that the SNP is close to getting the 10% swing from the Lib Dems across Scotland that they would need in the seat to win it, the Nats scent a scalp.

On a balmy Easter weekend with trippers filling the cafes, St Andrews looks comfortably prosperous, hardly a nationalist hotbed. A student reckons that, though the Lib Dems have hurt themselves badly by reneging on their election pledge not

to raise university tuition fees south of the border, the student vote north of it is still pretty solid: devolved Scotland does not exact tuition fees from Scottish undergraduates. But local people sense the ground is shifting. "I think it may be very close, what with the way the Lib Dems down in England have banded with the Tories," says a technician. A golfer agrees. And it is not Labour which stands to profit.

That is mainly because the SNP's appeal is curiously wide-spectrum. Though the party claims to be left of centre (and its statist agenda on public services-free social care for the elderly, free prescriptions and so forth-certainly is), much of its message is tax-cutting and right-wing. For the past four years the SNP has frozen council-tax bills and it says it will do so again until 2016, outbidding other parties who are promising, at best, a two-year freeze. It has also cut local rates for small businesses and promises more support to come. "Scotland has drifted somewhat to the right, mirroring the drift in Britain generally," says John Curtice, a psephologist at Strathclyde University. The Tories-honestly but throat-slittingly insistent that the budget deficit must be cut-are not in line to get all of the centre-right vote.

Things could still change. Peter Kellner, president of YouGov, says that one in five people who would vote Labour in a Westminster election plan to vote SNP in the Holyrood one. But Labour went on the attack this week: Mr Gray relaunched his campaign; Ed Balls, the shadow chancellor, visited Edinburgh; and word is that Gordon Brown, the previous prime minister, is poised to hit the campaign trail hard.

Their message is that if the SNP gets in with an increased majority, it will push Scotland towards independence, which Scots take a distinctly dimmer view of than they do of Mr Salmond: only 35% favour it, according to a poll published on April 24th. Unsettling talk of breaking away from Britain, said Mr Gray in a speech the following day, would cause economic uncertainty, turn off investors and cost jobs. It is probably too late for Labour's national heavy-hitters to save the party's flagging campaign in Scotland, but they may claw back a few seats.

Elections in Northern Ireland

Guns and roses

The escalating threat of violence is only strengthening the mainstream commitment to peaceful democracy



Partners in pragmatism

THE killing by dissident republicans of a Catholic police recruit earlier this month cast a shadow over the elections to the Northern Ireland Assembly on May 5th. It was deepened by the threat on April 25th by masked members of another splinter group, the Real IRA, to kill still more policemen. But reactions to both events showed the determination of Catholics and Protestants alike to keep their province on the path of peaceful self-government. Constable Ronan Kerr's funeral was conspicuously attended by prominent figures from both communities. And a Londonderry priest, Father Michael Canny, offered to try to convince the Real IRA of the error of its bomb-planting ways.

Politics in Northern Ireland is still largely an extension of the peace process in train since 1998, though bread-and-butter issues are beginning to play a bigger role. As May 5th looms, with its local and provincial elections and referendum on electoral reform, elsewhere in the United Kingdom the Conservatives, their Liberal Democrat partners, Labour and others are trying to wrestle each other to the ground. In Northern Ireland these parties have no sway: the question is whether Sinn Fein and the Democratic Unionist Party (DUP) will continue to suck support from their smaller rivals and whether, just possibly, Sinn Fein might sneak ahead of the DUP, making Martin McGuinness (pictured left) first minister in place of the DUP's Peter Robinson (pictured right).

Five parties have ministers in the ruling executive, their numbers determined by how well each party did in the latest election. Members of the Legislative Assembly are chosen by a system of proportional representation. The government is likely to be returned unchanged, though the once-mighty Ulster Unionists could face losses. Most observers expect the DUP to consolidate its position as the primary voice of Protestant Ulster, and Sinn Fein to make gains too: the party did well in recent elections in the Irish Republic.

Such an outcome would accentuate the extraordinary new alliance between the DUP and Sinn Fein. The two still stand for polar opposites, the first for the union with Britain and the second for an eventual united Ireland. In the here and now, however, they govern as a team that the Tories and Lib Dems in Westminster might envy-so closely, in fact, that other parties complain that they have established what almost amounts to a two-party administration.

Earlier this year the two overruled other parties and agreed on a cost-cutting budget, one of many instances in which, in a manner new to Belfast, they have reached compromise arrangements. When they diverge they generally agree to differ, putting off difficult decisions in a way that critics say amounts to dodging the issues.

Yet if they are failing to tackle deep-seated problems across the province, such as segregation in housing and education, they are leading by example: their political co-operation has gone hand in hand with remarkably improved personal relations. Mr Robinson and Mr McGuinness now describe each other as friends, exchanging bantering text messages. When Mr Robinson attended Constable Kerr's funeral it was the first time he had been to a Catholic mass. A few days later, Mr McGuinness attended the funeral of Mr Robinson's mother-in-law, the first time he had been inside a fundamentalist Free Presbyterian church.

Public life in Northern Ireland has long been a bitter business, but now the DUP and Sinn Fein behave towards each other with something approaching chivalry. Even during the campaign they have stuck to an unwritten code, freely expressing differences but carefully avoiding any escalation into serious conflict.

The new politics of pragmatism will be put to the test if, as is not impossible, Sinn Fein wins enough assembly seats to put Mr McGuinness within reach of becoming first minister. But for the moment the two big parties are concentrating on attacking their rivals rather than each other. So far this has produced a low-key campaign which, by its very dullness, conveys that normal politics are taking root.

Index | Britain

Helping families

Value for money

Britain spends heavily to support young families. Why aren't the results better?

POLITICIANS like nothing better than shoring up the family, the building block of society and source of its future wealth. David Cameron, the prime minister, promised to make Britain "the most family-friendly country in Europe". A new report from the OECD, a think-tank, suggests he has some way to go.

Britain is a big spender on family benefits. Of OECD members, only Denmark and France dedicate a higher proportion of GDP to them (3.7% to Britain's 3.6%). Yet not even the most dogged optimist could say that British family life has been radiantly transformed.

True, the proportion of children in poverty has come down, though progress has stalled and it is still higher than in France or Germany. Alleged improvement in school performance is hotly debated. But in some ways Britain lags indubitably behind countries that spend less. "The outcomes aren't bad," says an OECD official, "but they are not at a level we might expect, given the expenditure."

Two measures highlight Britain's problems. It has one of the highest rates of single parents, and one of the lowest rates of lone parents in paid work. Yet parental employment is an important predictor of children's future success. Just half of Britain's single parents were in gainful employment when the OECD pulled together its figures (see chart); only in Turkey did a smaller proportion work.



One big reason is that child care in Britain is dear. It takes around 28% of the average net income of two-earner households with children-way above the OECD average of 13% (see chart). Many single parents find it simply unaffordable, when low-paid jobs are often the only ones on offer to the less qualified.

What approaches give the best value for money in family policy? The rate of return is highest when investment starts in early childhood and continues steadily into the teenage years, the OECD found. In Britain, by contrast, it falls sharply after the first year of maternity provision. And countries that spend more on services-especially high-quality child care-than on cash hand-outs and tax breaks tend to get better results for a smaller outlay: in Britain the proportions are reversed.

It is not yet clear what the coalition government's goals in family policy are. So far, Britain has spent lavishly, without inspiring results. That must worry George Osborne, the austerity chancellor. The consequences should concern everyone else.

Index | Britain

Bagehot

The thinking capital

Despite Britain's tradition of anti-intellectualism, Westminster has become a cerebral place



IF ENGLISH intellectuals hate their own country, as George Orwell wrote, the feeling is mutual. Abstract thought is seen as suspiciously continental in a land that has a whole lexicon for deriding "eggheads" in "ivory towers" who are "too clever by half". British politics is marked by this anti-intellectualism. The most successful party in Britain's history is that of the proudly practical Tories, the "stupid party" of John Stuart Mill's snooty caricature.

Britain's indifference to ideas can be a handicap. Its elites, certain that everyone is as unmoved by belief systems as they are, sometimes struggle to navigate the darker edges of politics. They have always had a hard time accepting that radical Islamists, for example, really are driven by religion-as-ideology. Earthly grievances, such as poverty and discrimination, are lazily assumed as explanations on their behalf. Overall, though, the country's preference for common sense over deep thinking has served it well. Unlike much of Europe, Britain never fell for fascism or communism. There is wisdom in its reluctance to take ideas too seriously. There is maturity in its grasp of how little we can ever know.

But no tradition or habit of mind is immutable. In a process that began in the previous Labour government, and has accelerated under the coalition, Westminster's anti-intellectualism has softened. Political London has developed a thinking culture of its own, like capitals such as Paris and Washington.

Take, for example, the emergence of Downing Street as a salon for intellectuals from around the world, and not only economists and political scientists. Under David Cameron-or, more accurately, Steve Hilton, the prime minister's most influential adviser-the thinkers invited to hold court there often have little to say about policy *per se*. Joshua Foer, a young American who has written an acclaimed book about how memory works, was a recent guest. Mr Hilton's rationale is that governments have more to learn from fields of research that investigate how humans behave, such as neuroscience and social psychology, than from conventional technocrats. There is now a policy team devoted to "behaviourial insight" in the Cabinet Office.

If this seems like cogitation for its own sake, then remember that many of the government's policies, such as schools reform, elected police commissioners and data transparency, were hatched during years of such feverish thinking in opposition. Indeed, the coalition may be the first post-war government that is radical by choice. Voters exhausted by war were screaming out for the welfare state that Labour began building in 1945. Britain's broken economy needed a Thatcherite fix in 1979. The coalition's austerity programme has also been largely forced upon it by the fiscal crisis. But its equally bold plans to decentralise power were born of Westminster's vibrant, and recent, culture of ideas.

A smarter statecraft

The intellectual gentrification of British politics even extends to the basic mechanics of running things. A capital that used to "muddle through" now shows an interest in the science of government. The Institute for Government, formed by ex-civil servants three years ago, has become the port of call for ministers and mandarins looking for guidance on policy delivery and the machinery of the state. A de facto Department of the Prime Minister has emerged over the past decade, with teams devoted to strategy and implementation. Even the role of "special advisers" has changed. A generation ago they were mere gatekeepers. They are now indispensable to the conception and delivery of policy.

Of course British politics has seen intellectual ferment before. The ideas that informed Thatcherism were expounded by bow-tied wonks in the 1970s. But that activity was regarded as novel and slightly kooky. The point about today's intellectualism is its normality; it has been integrated into the ordinary life of Westminster. At a seminar arranged for a relatively obscure American scholar last year, MPs, advisers, journalists and pollsters not only turned up but interrogated the guest with informed queries about his work. He doubted whether such restless curiosity could be found in his own capital. But it was a fairly typical event in the basement of a small think-tank.

There are risks. In bleak economic times politicians can look self-indulgent if they ponder anything other than the bread-and-butter of jobs, prices and wages. The Tories failed to win last year's general election in part because their campaign dwelt esoterically on the Hiltonian theme of the "Big Society".

But there is political utility in thinking, for few things are more politically toxic than a lack of ideas. Looking back, John Major's hated Tory government was not especially incompetent. After the European Exchange-Rate Mechanism debacle of 1992, it provided steady economic stewardship for five years. It was just bereft of new ideas and had nothing to say about the future. Neither did Gordon Brown's premiership recover when he turned out to be a political game-player rather than the big thinker of lore.

The lesson here is for the left. Labour wins when it is in the vanguard of ideas: the welfarism of 1945, the "white heat of technology" in the 1960s, the modernised social-democracy of 1997. It is now mired in an intellectual recession. There are attempts to shake things up, such as "Blue Labour", a group of thinkers and MPs who want the party to shed its statism in favour of a Cameronesque commitment to civil society. But nothing has yet stuck.

And Labour must compete with a coalition that has not stopped thinking. Figures from both sides of the government are meeting to concoct policies for the second half of this parliament. These brainstorms for "Coalition 2.0" feature not only ministers but also think-tank bosses and the more cerebral kind of journalist. Westminster, say old hands, was not always like this. The stupid party is a thing of the past. So too is the stupid capital.

Economist.com/blogs/bagehot

Index | International

Pope Benedict XVI

Saintly shadows

Benedict XVI's papacy is moving ahead slowly. And not so surely



JOHN PAUL II's beatification on May 1st will be the most exalted ceremony at the Vatican since his funeral six years ago. More than 50 heads of state are expected, plus hundreds of thousands of the faithful, largely from the late pope's native Poland. The former pope is now just one stage-canonisation-away from full sainthood. The adulation of his communism-toppling 27-year reign and powerful personality will inevitably highlight the less stellar record of the accident-prone Benedict XVI.

Pontifical aides hope the event may mark a turning point. The second, most important volume of Benedict's trilogy on Jesus has been published, with no gaffes and much praise. He has given a television interview (carefully staged, but a papal first). He has tried to defuse the crippling clerical sex-abuse scandal, expressing unreserved shame for the crimes and cover-ups and meeting victims in Malta, Portugal and Britain. Giovanni Maria Vian, editor of the Vatican's semi-official daily, *L'Osservatore Romano*, says that Benedict's actions show him to be "not just a great intellectual, but also a simple, humble, good man". The peak of the scandal, in the "*annus horribilis*" of 2010, is past, he says. But he acknowledges that the situation in Ireland still requires a "long penitential journey".

And not only there, many would say. Outside the Vatican, the sex-abuse scandal still defines the church's image. And it looks horrible enough. In Philadelphia the church suspended 21 priests from active ministry on March 8th following accusations of improper conduct with juveniles. This followed a grand jury report the previous month alleging a big cover-up by the religious authorities. In Belgium a former bishop, Roger Vangheluwe, who has already admitted abusing two of his nephews, was this month put under investigation on suspicion of abusing two altar boys. The Vatican has sent him for treatment but has yet to unfrock him, even after he seemed to trivialise his actions in a television interview.

This pattern of indecision chimes with a persistent criticism of the 84-year-old pontiff: that he has failed to make the Vatican's civil service (the curia), work effectively. The shy former theology professor once admitted he had "no talent for...administration or organisation". As head of the Congregation for the Doctrine of the Faith, the Vatican department that enforces doctrinal orthodoxy, he sensibly delegated managerial work.

Admittedly, John Paul liked to bypass bureaucracy and bequeathed a mess to his successor. But he did entrust the key post of secretary of state (a kind of prime minister), to a canny ex-diplomat, Cardinal Angelo Sodano. Benedict's choice fell on his former deputy Cardinal Tarcisio Bertone, an inspirational pastoral leader but lacking curial clout and international experience.

A group of cardinals last year privately implored the pope to replace Cardinal Bertone. "Tired of unpleasant surprises", according to a frequent associate, Benedict responded by giving a broader mandate to his secretary, Father Georg Ganswein. Officials say "The Apartment", (the pope's private circle) is getting a lot more involved in day-to-day curial administration.

A tighter grip cannot come soon enough. The latest fracas came with the unveiling on April 13th of the trendily named YouCat, a new Catechism (in effect, the church's FAQ for youngsters). Supposedly authoritative, the Italian translation differed seriously from the German original on the vital issues of euthanasia and birth control. That led to a public rebuke

from the editor, Cardinal Christoph Schonborn of Vienna, to the Patriarch of Venice, Cardinal Angelo Scola, who had overseen the translation. Both are leading candidates to succeed Benedict and are on opposite sides in a vital debate: whether the church's sex-abuse woes stem chiefly from structural problems in the church, such as (implicitly) priestly celibacy, or from sinfulness (which is Benedict's position).

While that smoulders at the top, another row is flaring at the grassroots. Strange as it may seem, Benedict has disappointed those who hoped he would correct some of John Paul's more liberal tendencies. He has promoted the old, Tridentine liturgy. But he has not wooed back breakaway hardliners or dumped the Second Vatican Council's ecumenical, modernist legacy.

Worse, he has even agreed to join (but not pray with) leaders of other faiths in Assisi in October at an event commemorating a ground-breaking interfaith gathering in 1986. At that time, to traditionalists' fury, John Paul joined other religious figures in prayer, including Native American holy men. Some even think that made him unfit for sainthood. They also see Benedict's role in the follow-up event as a dangerous lurch towards syncretism (the heretical idea of blending religions).

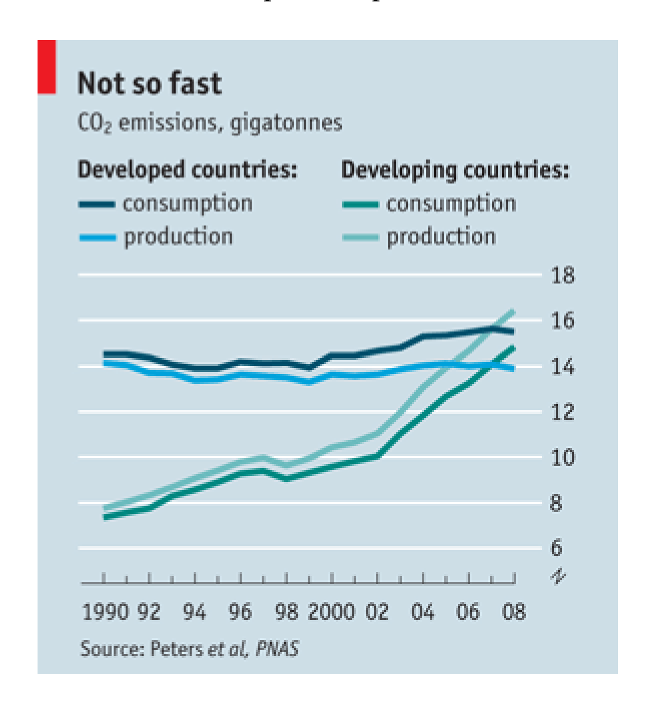
Such disputes dispirit those who want the church to look outward and upward, not nitpick over the past. In a fervent article for *Jesus*, an Italian monthly, Enzo Bianchi, the founder of a monastic community near Turin, said he was tired of "wars between ecclesiastic factions" and of accusers who "do not want to hear or know the truth, but merely silence others". He says: "I wonder along with many others: where is the church going?" For all his faults, that was not a question people asked of Benedict's predecessor.

Carbon flows

The emissions omitted

The usual figures ignore the role of trade in the world's carbon economy

WHICH do you value: production or consumption? The preference has long defined economic questions ranging from tax policies to development. Now it matters in national carbon accounting too. If you look at production, you count the carbon that comes from a territory's smokestacks, exhaust pipes and forest fires. With consumption you tot up the carbon emitted when providing the goods and services bought there. Looked at that way, international trade is a carbon-dioxide pipeline moving responsibility for its effects on the climate from place to place.



Just over a quarter of all industrially emitted carbon moves about in this way, up from a fifth in 1990. The net flow is from the developing to the developed world. So in terms of consumption the rich countries are still the world's biggest emitters (see chart). New research shows that the flow's volume is rapidly increasing.

Glen Peters at the Centre for International Climate and Environmental Research, Oslo, with colleagues elsewhere, has looked at the carbon content of international trade since 1990-the benchmark year for measuring emissions under the UN's Kyoto protocol. The annual growth of CO_2 emissions from exported products was 4.3%-faster than GDP or carbon emissions in general, slower than world trade. But it was 17% for trade between developed countries (those expected to meet the Kyoto emissions cuts) and the rest of the world, rising from 400m tonnes in 1990 to 1.6 billion in 2008.

On a production basis, many of the rich countries (but not America, which has not ratified Kyoto) have cut their emissions-by 6% in 1990-2008 in the case of the European Union. But the EU's imports of embodied carbon from developing countries rose a lot more than its local emissions fell. Overall, the rich world's increase in "carbon imports" is six times bigger than cuts in the developed countries' own industrial emissions. The lion's share of this carbon comes, predictably enough, from China; 18% of the global increase in emissions since 1990 is embodied in Chinese exports.

Mr Peters and his colleagues see no evidence so far that carbon-control policies, weak as they are, are shifting production to less regulated countries. Carbon follows trade patterns set by other factors; it does not shape them. Sterner carbon restrictions, though, might provoke rich-world industrialists to press for tariffs on carbon-intensive imports with which they cannot compete. A more fruitful approach might be to see the trend in terms of the need for greener investment outside the rich world. Spreading low-carbon technologies there matters as much or more than decarbonising developed countries.

Index | International

Nuptial economics

Unbridled

Wedding jollity-more or less

WHEN Prince Charles married Lady Diana Spencer in 1981 millions of Britons partied in public. Far fewer were expected at street parties for Prince William's wedding on April 29th, not least because of the red tape that now snags public gatherings. David Cameron vainly told local authorities to "let people get on and have fun."

Few prime ministers need to implore their people to party. More often governments are trying to stop them: the Afghan authorities have been considering a proposal to limit the boom in weddings, sombre affairs under the Taliban. The suggested limit is 300 guests and a few dollars per head.

Other countries have similar worries. Wedding laws in Tajikistan now maintain that only one course may be served. India's legendary nuptial shindigs risk emptying not just the country's wallets, but its bellies too. In February the food minister estimated that close to 15% of all grains and vegetables in the country are wasted through "extravagant and luxurious social functions", such as lavish wedding banquets. Days later, diners at a society wedding pecked at a 100-dish menu. Party-poopers want India's food security laws to curb such profligacy.

Some rich governments choose to subsidise expensive weddings. In the United Arab Emirates many males (a third of Dubai men, for example) wed foreigners, at a quarter of the price of marrying a local girl. The government aims to reduce the rising number of single local women by offering prizes of up to $19,000 to men who marry them.

Surveys in America price the average wedding at close to $30,000 (though the mean is inflated by high-cost dos; the median is lower). Costs peaked in 2008; economic gloom has since dampened them. Yet over 20 years the price has almost doubled, while America's marriage rate is down by nearly a third.

Last year the canon chancellor of St Paul's Cathedral in London, Giles Fraser, argued that outsize celebrations were a threat to marriage itself. He said modern British nuptials were an "overblown vanity project" seen out in "an atmosphere of narcissism and self-promotion". Most clergy, he argued, now prefer taking funerals. Perhaps. But Prince William and Kate Middleton's wedding, likely to reach more than a billion viewers worldwide, is unlikely to assist the noble cause of nuptial austerity.

Index | Business

Corporate computing

Online reputations in the dirt

Serious glitches at Sony and Amazon have revived worries about the risks of handling data online



THEY are two of the biggest names in technology and each is grappling with a huge and highly embarrassing debacle. On April 26th Amazon's finance chief, Thomas Szkutak, said the firm was still trying to get to the bottom of a glitch that caused numerous websites it hosts for other businesses to crash or run painfully slowly during the previous week. The same day, Sony of Japan revealed that names, addresses, passwords and possibly credit-card details of 77m accounts were stolen when hackers gained access to the network it runs in 60 countries for its PlayStation online-gaming system, as well as for Qriocity, a service offering music, films and television shows.

The two cases are different, but each has, in its own way, revived worries about the safety of storing and processing data over the internet-worries that have largely faded since the web's early days, as countless individuals and companies have come to find that the benefits of doing things online greatly outweigh the risks. The two crises have also raised questions about the speed and quality of information provided by tech companies when confronted with systems failures.

Details of what happened at Amazon Web Services, which offers computing services and data storage over the internet "cloud", were still emerging as we went to press. But it seems that a serious problem in a data centre in northern Virginia triggered an outage that affected some of the firms using that centre's infrastructure, including Foursquare, a social-media company, and a number of other prominent start-ups. Some data seem to have been lost permanently. Amazon irritated its corporate customers with the vagueness of its early updates. Keith Smith, the boss of BigDoor, a gaming firm, complained in a blog post that these seemed to have been written by lawyers and accountants "rather than by a tech guy trying to help another tech guy."

That is a black mark against a company that prides itself on being among the world's most customer-centred. But none of this means the shift to cloud computing is about to go into reverse. Indeed, Forrester, a research outfit, reckons that the global market for cloud services could grow from $41 billion last year to $241 billion by 2020. One reason for this is that the savings that can be won by shifting computing to the cloud remain compelling; another is that Amazon-style snafus have been rare.

Yet another is that managing one's own network is hardly a guarantee of reliability. Ask Sony, whose online-gaming system, albeit delivered through the cloud, is hosted on its own servers. Services were suspended on April 20th after an intrusion was detected, but Sony then took almost a week to admit the risks to users' personal data. The company insisted it had taken this long for it to realise the seriousness of the threat. But this claim was met with scepticism; and Sony's failure to encrypt all of its customers' data may bring it lawsuits and regulatory penalties.

Sony's slowness at warning customers is particularly damaging because it comes just as new versions of high-profile games such as Mortal Kombat and Portal 2 are being released for both the PlayStation and its rival, Microsoft's Xbox 360. This was "really bad timing", says David Abrams, the chief executive of Cheap Ass Gamer, a gaming-information provider in Tokyo.

Sony's outage also interrupted third-party services delivered over its network, such as some of Netflix's online film rentals. Netflix also uses the Amazon data centre that went on the blink, but avoided any problems as a result of this. The secret of its relative resilience is what the company calls its "Rambo Architecture". Among other things, this means designing different parts of its system-say, the bit that recommends videos and the bit that lets users search for them-so they function independently of each other, making it less likely all will keel over at once. The firm also uses software it designed itself called "Chaos Monkey", which randomly simulates failures in its cloud-based systems to see how robust they are.

Some firms bring in specialist advisers to plan, test and manage their technology set-ups in the cloud. Michael Kirven, the boss of Bluewolf, one such advisory firm, says that because Amazon and other providers have made it so easy for companies to shift their services to the cloud, some customers have been lulled into thinking they don't need the same amount of backup protection as they would elsewhere. But as this week's events amply demonstrate, although the benefits of doing things online still greatly outweigh the risks, it often pays to be paranoid.

Index | Business

Reforming company taxes

Getting corporations to cough up

There are flaws in how companies are taxed, but fixing them will not be easy



Down with tax-dodging and posh chocs

WHAT do General Electric, Vodafone, Fortnum & Mason, Citigroup, Barclays and Boots all have in common? Each has been branded a tax dodger by activists. In Britain a group called UK Uncut made headlines last month by occupying the Fortnum & Mason store in London (see picture), during broader protests against government cuts. US Uncut, a sister organisation, teamed up with the Yes Men, a group that plays pranks on the rich and powerful, to issue a fake press release. It announced that GE, which had earlier been accused of paying no American taxes in 2010 on profits of at least $5 billion, would give back to the government a $3.2 billion tax refund on April 18th, the day Americans were due to file their tax returns.

Under the broad banner of tax "dodging", these companies are being accused of various manoeuvres which in fact seem to be perfectly legal and often desirable (who wants to pay too much tax?). Vodafone is being criticised for paying the British government only pound1.2 billion ($1.9 billion) instead of the pound6 billion activists claimed it owed, to settle a tax dispute. Yet the government declared itself happy with the amount paid.

The notion that GE paid no taxes in 2010, and even got a refund, seems to have come from a misreading of its accounts. Even so, the firm says it will have only a "small" American tax liability for last year, partly because of its "six sigma" approach to exploiting legal loopholes. Citigroup's huge tax deductions are the result of its losses in the financial crisis. Fortnum & Mason was a target because its parent company has a big stake in a firm accused of using a holding company in Luxembourg to avoid pound40m in British taxes. And so on.

Corporate-tax lottery

Winners and losers under the current tax code

Company	Effective tax rate*, %
General Electric	3.6
Merck	12.5
Hewlett-Packard	20.0
Johnson & Johnson	22.0
Walmart	33.6
CVS Caremark	38.8

Sources: Testimony of Martin Sullivan to US House of Representatives; company reports

*Average of three years presented in most recent report

The tax-dodging claims have struck a chord with voters worried about rising taxes. In March a British parliamentary committee began an inquiry into corporate tax avoidance. A congressional panel in America heard evidence in January from Martin Sullivan, a tax expert, of the drastic variations in the effective tax rates paid by different American firms, even ones in similar industries (see chart). Everyone from President Obama to GE (which insists it is desperate to close those dratted loopholes, at least if doing so is part of a broader reform) is saying that something must be done. The difficulty is figuring out what.

One thing on which there does seem to be a consensus is that America's marginal rate of corporate income tax-at 35%, one of the world's highest-must come down. It encourages multinationals doing business in America to record as much of their profit as possible elsewhere; and, furthermore, American tax law encourages them to keep that profit abroad, because it is taxed as it is brought in to the country.

Now, as it does from time to time, corporate America is calling for a tax holiday on foreign earnings, arguing that if brought home they could be used to create jobs, boost research and generally help the economy. However, a study of the most recent such tax holiday, in 2004, suggested it had little effect on employment and investment, with most of the benefits going to shareholders. The analysis-by Kristin Forbes, a former member of George W. Bush's Council of Economic Advisers, and two colleagues-found that for every extra $1 of foreign profits American firms brought home, payouts to shareholders went up by 60-92 cents. Nonetheless, points out Alan Auerbach, an economist at the University of California, Berkeley, the idea of another tax holiday, "like a lot of bad ideas, has bipartisan support."

Tax authorities are supposed to have wised up to companies avoiding taxes by tinkering with the "transfer prices" their offshore divisions charge their onshore ones for goods and services. But there is still plenty of scope for doing so where intellectual-property rights and financing arrangements are concerned, says Michael Devereux of the Oxford University Centre for Business Taxation. It is not clear how much revenue is in practice lost, says Mr Devereux, though the system is about as complex as can be, and attempts to fix it often end up making it more complex still.

Any reform that significantly increases the tax bill for companies risks prompting them to move abroad, as governments have found to their cost. WPP, a marketing giant which left Britain for low-tax Ireland in 2008, is now considering returning, having looked into the reforms being planned by the new British government-suggesting that these reforms are unlikely to lead to footloose companies having to pay much more tax.

Mr Devereux would prefer a radically different system in which firms are taxed not where they say they make profits but where they generate sales: ie, where their consumers are. This would make sense, as it is relatively simple and would surely shift much of the tax base to bigger economies from tax havens. However, it is a long way from what is being considered, at least in Britain and America.

The immediate goal in America of cutting the headline corporate-tax rate would surely require an accompanying broadening of the tax base to pay for it, given the country's huge budget deficit. To do this, some of the many tax breaks firms enjoy would need to be scrapped. This week John Boehner, the Republican speaker of the House of Representatives, tentatively suggested scrapping big oil firms' multi-billion-dollar subsidies. However, many of the tax breaks that might be scrapped were created to encourage investment. Mr Auerbach notes that, in so far as they achieve this, there is a risk that ending them to pay for a lower headline rate of corporate tax might hurt the economy in the short term, even if it does some good in the long term. No wonder politicians are keener on talking about reform than on reforming.

Index | Business

American hospital companies

Bigger and better

America's big hospital groups will continue to gobble up competitors

HOSTILE takeovers are never polite. One fight in America, however, has become particularly ugly. In December a huge stockmarket-traded hospital company, Community Health Systems, announced that it wanted to buy another, Tenet

Healthcare, for $3.3 billion. The bid soon became a brawl. In the saga's most recent chapter, Tenet filed a lawsuit accusing Community of overbilling government and private health-insurance schemes. Community denies this and, as *The Economist* went to press, was due to present a more detailed rebuttal.

Although this bid battle has become unusually rancorous, it is in line with a broader trend of consolidation in the huge but fragmented business of providing hospital care. In 2009 America's hospitals soaked up one-third of all national health-care spending, or $759 billion, roughly equal to the entire GDP of the Netherlands. In the long term an ageing population will produce more invalids and thus more business. In 2014 the "Obamacare" health reforms will bring 32m newly insured patients. The less good news is that the health reforms also bring new regulations and intense pressure to contain costs. This is strengthening the argument for consolidation among hospital operators.

Mergers are nothing new in the industry. In 1979 only 31% of America's hospitals were part of a larger hospital system. By 2001 more than half were. The rationale for joining a larger chain is simple. It means better access to capital for renovation and expansion, better management and-most important-more clout when negotiating treatment prices with health insurers.

Now, the health reforms are piling on the pressure to merge. Obamacare requires hospitals to invest heavily in technology, even as the government cuts payments for treatments. Hospitals will increasingly have to demonstrate the quality of their services. Small hospitals may struggle to meet such demands; bigger groups will be better equipped. Besides, now is a good time to be doing deals, says Gary Lieberman of Wells Fargo. Credit markets have offered favourable terms to hospital groups raising money. And thanks to the downturn there has been ample supply of not-for-profit hospitals for sale. Community's bid for Tenet is the biggest deal now in the works. The combined companies would have annual revenues of $22 billion, second only to HCA, which last month raised $3.79 billion in an initial public offering (IPO). But plenty of smaller deals are going on. Vanguard Health Systems, which this month filed for an IPO, has bought hospitals in Detroit, Chicago and Arizona in the past year. HCA seems likely to use at least some of its IPO cash to make more acquisitions.

Big hospital operators must still grapple with Obamacare's new requirements. And in some cases, growing larger brings its own challenges. Vicki Bryan of Gimme Credit, a bond-research firm, worries that Vanguard's shopping spree (and dividends to its shareholders) have left it with excessive borrowings. Another worry is that although there are many benefits to being big, realising them takes time. HCA's recently improved earnings, Ms Bryan contends, are largely due to changes in accounting and billing models. Tenet says Community has boosted revenue by keeping patients in hospital unnecessarily; Community denies this vehemently.

Nonetheless, the hospital-merger wave still has far to go. HCA, despite being the industry's leader, controls less than 5% of the market. There are many more deals to come, the only question is how quickly.

Index | Business

Honda's troubles

Civic unrest

Japan's crisis hits Honda but it is not bad news for all in the motor trade



An image that needs a bit of a polish

A CRUCIAL product launch for Honda may be in jeopardy as the carmaker struggles in the wake of Japan's disaster. An updated version of the company's bestselling Civic range has just made its first appearance in America at the New York Auto Show-but it is unclear how quickly motorists impressed by its curves will be able to take delivery of one.

Not only were Honda's Japanese plants shut for much of the past month but production has been sharply curtailed at its factories in America and elsewhere, because of shortages of Japanese-made electronic chips and other parts. "The situation is very fluid", frets John Mendel, the company's top American executive, "and changes day-to-day." Toyota and Nissan have told their American dealers that deliveries of cars will not be back to normal until July at best, maybe September.

At this late date Honda cannot postpone the Civic's launch, as Toyota has done with several models, including the new Prius V hybrid and the American version of its iQ minicar. But the alternative, stretching out its introduction, also poses risks, says Art Spinella, of CNW Marketing Research, an auto consultancy. The longer buyers have to wait, the more likely they are to look at rivals' models. That might not have been much of a worry a few years ago, Mr Spinella adds, but Honda is facing a much stronger product assault from American manufacturers-such as Ford, which is soon to launch a revamped Focus-as well as Hyundai of South Korea.

A loss of momentum in America would be especially worrying for Honda, which has long earned a large chunk of its profits there. On April 28th it announced a 38% year-on-year fall in first-quarter profits because of earthquake-related production cuts and weak sales. Mainstream models like the Civic and Accord are selling well but some of Honda's niche models, such as the ZDX, sold under its Acura luxury marque, and the Insight, a hybrid-electric car, have disappointed, says Joe Phillippi of AutoTrends Consulting.

Worldwide, Honda is struggling to recover from a disappointing year. Its 2010 sales grew by a modest 5%, compared with 22% at Nissan, which overtook Honda to become the number two Japanese carmaker. A weak launch of the new Civic clearly will not help. So no one will be surprised if Honda diverts components from other models to the subcompact's assembly lines, especially in America. The next few months will be tough, but giving the Civic a decent debut would at least help shore up the brand.

The disruption caused by Japan's quake, tsunami and power shortages is spreading far and wide among carmakers: one of the affected plants normally supplies a key microchip for around 40% of all new cars in the world. Even so, the crisis is an opportunity for some. The resulting shortage of new cars is driving up the prices of those models that are readily available-such as Ford's Focus-and of secondhand cars. Reductions in the big discounts Ford had been offering on some models were a factor in the bumper $2.6 billion of quarterly profits the company announced this week.

Index | Business

Areva

Gauging the pressure

France's nuclear-energy champion hopes to benefit from a flight to safety

EVER since Abu Dhabi chose a South Korean group to build a series of nuclear reactors instead of Areva's EPR, which was 50% more expensive, in December 2009, France's nuclear industry has been in a funk. The country's flagship reactor, many concluded, was too costly, mainly due to its wealth of safety features. Areva came under pressure to put older, cheaper designs back in its catalogue. The radiation leak at Fukushima has changed all that. "The idea of low-cost nuclear is dead," says Alain Minc, a consultant in Paris.

So, in one way, Areva, majority-owned by the French state, could gain from Japan's nuclear disaster. China, by far the biggest builder of nuclear capacity, is likely to buy more EPRs than it would have done. An official at China Guangdong Nuclear Power said this month that the government will probably stop approving older, "generation 2" reactors, like those at Fukushima, which dominate the nuclear-power industry today. Third-generation reactors, which incorporate extra safety features, such as the EPR and Westinghouse Electric's AP1000, would benefit.

Safety concerns will also boost two of Areva's most profitable divisions. The firm has contracts to maintain existing reactor fleets around the world, and is involved in processing radioactive waste and decommissioning old nuclear facilities. Following reviews post-Fukushima, nuclear utilities will have to revamp their equipment, apply tighter safety standards and in some cases shut down reactors.

Over the longer term, however, France's nuclear industry faces a bleaker future. Areva may succeed only in winning a higher share of a shrunken market for reactors, as governments delay or stop new-build programmes. Before Fukushima, the International Energy Agency predicted that nuclear plants would add 360 gigawatts of generating capacity by 2035, or the equivalent of over 200 new EPRs; it is now reckoning on half as many. The slowdown comes just as Areva is about to start making money from new reactors, after suffering heavy losses on its first EPR, in Finland.

Some big markets, such as China and India, are expected to push ahead with new nuclear plants. Areva said this month that it expects to sign a big contract this year to supply reactors to India. But that may not compensate for the loss of important developed markets. Italy and Switzerland have halted their expansion of nuclear power and Germany will no longer extend existing plants' lives. It is in Europe that Areva is strongest and most profitable, says Olivier Esnou, an analyst at Exane BNP Paribas in London. Tenders in developing markets are far more competitive.

Even after Fukushima, indeed, Areva still urgently needs to bring down the cost of its EPR, argues a Paris-based adviser to the industry. Countries will demand the most safety-conscious generation 3 plants, he says, "but it will be cheap generation 3 for everyone, perhaps built by China."

These will be challenges for Areva's boss, Anne Lauvergeon, whose job is up for renewal by Nicolas Sarkozy, France's president, in June. Ms Lauvergeon, who is credited with rehabilitating the image of nuclear power over the past decade, is considered the industry's perfect ambassador post-Fukushima. Despite her unpopularity with her main shareholder, she is expected to keep her job-helped also by the fact that no one else may now want it.

Index | Business

Japan's eco-industrial policy

A cloud with a green lining

Disaster-relief spending may boost energy-saving technologies



Doing their bit to solve the energy crisis

JAPAN'S quake, tsunami and nuclear crisis wiped out a quarter of the power-generation capacity in Tokyo and the Kanto region. As the government asks businesses and households to conserve electricity this summer, it is also considering incentives for energy-saving technologies. A green industrial policy, it hopes, would not only help a bit with the power shortage but also boost Japan's struggling renewables firms.

One idea is to promote solar power by paying businesses and homeowners to feed energy into the grid rather than just buying their excess power, as happens now. Most new homes come with solar panels fitted but there is still scope for increasing the use of these. This might give Japanese panel-makers the scale they need to regain the market lead they have lost to Chinese and American rivals.

Another proposal is to subsidise the cost of installing LED lighting in place of incandescent and fluorescent lamps, which would mean energy savings of 80% and 50% respectively. Yet changing light fittings is expensive, and so are the bulbs themselves: an incandescent bulb costs less than $1, but an LED equivalent is $60, though it is said to last 40 times as long. This too could boost Japanese firms, which helped commercialise LED technology but now struggle against low-cost makers in China and South Korea.

A further suggestion is to subsidise big, rechargeable batteries for the home. These would draw energy from the grid overnight, then be used to reduce peak daytime demand for power. Toshiba is rushing out such a battery, which it had originally planned to start selling in two years' time, to meet the expected demand from owners of electric cars. Panasonic is also hurrying out a similar home battery.

For the moment, all these are nothing more than proposals. The first disaster-relief bill, this month, included just Â¥4 billion ($49m) for publicity to urge Japanese to save energy and Â¥3.7 billion for consultants to advise small businesses on conservation. These are trivial sums compared with those being floated in the Japanese press, such as Â¥100 billion for a switch to green appliances and LEDs.

Japanese renewables firms' foreign rivals know it would be hard to object to such subsidies without seeming callous, given the scale of Japan's post-quake crisis. They also see potential benefits: some of the extra Japanese spending on green-energy devices might flow in their direction; and if Japan's government is subsidising its renewables firms, that makes it easier for the foreign rivals to demand similar treatment from their governments. One thing everyone agrees on is that in the short term, such energy-saving schemes will be insufficient to compensate for Japan's lost generating capacity. Only cutting the use of electrical appliances will do that.

Advertising in Africa

Nigeria's mad men

What ads say about doing business in Africa's most populous country



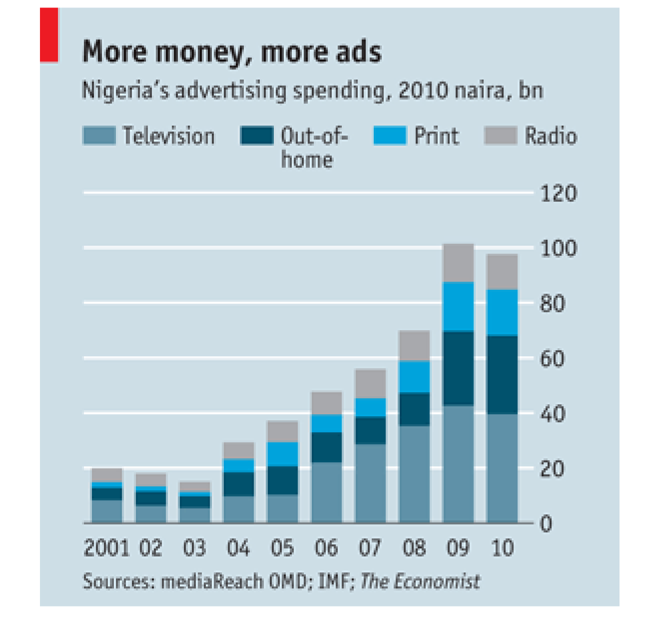
Naija-ness is good for business

A NOVELIST once wrote that: "You can tell the ideals of a nation by its advertisements." Nigeria's ideals vary from place to place: the north is mostly Muslim, the south is mostly Christian or animist. Young and old, rural and urban, Ibo, Hausa and Yoruba: each group sees the world differently. So Nigerian advertisers must be both deft and sensitive.

Many southerners rather enjoy ads involving voluptuous women dancing suggestively. But it would be dangerous to run such an ad in the north. When *ThisDay*, a Nigerian newspaper, printed a lighthearted column speculating that the Prophet Muhammad might have enjoyed the Miss World contest, 200 people died in the ensuing riots, a *ThisDay* office was torched and the writer had to flee to Norway.

That was in 2002. Since then, media folk have been more careful. "If you put up a billboard in Kano [a northern city] and discover that it is minutely, minutely offensive to any cleric, you tear it down immediately," says a southern ad executive.

Muslims are not the only group it is unwise to upset. Gold Circle, a brand of condoms, ran an ad in 2009 in which a male motorist is stopped by the police. He is found to be carrying a packet of condoms. A policewoman returns them, having written her telephone number on the packet. The police did not find this funny. Prudently, the firm withdrew the ad.



Despite a recent dip, advertising spending has quintupled in real terms between 2001 and 2010, to 98 billion naira ($646m), reckons mediaReach OMD, an ad agency (see chart). This reflects the emergence of a middle class with cash to spare for branded goods. Buoyed by high oil prices and a measure of economic liberalisation, GDP per person rose by 70% between 2000 and 2009, to $1,112. Wages are still low by rich-country standards, but many Nigerians are entrepreneurial. Office workers save, buy a bus or a bar, put a cousin in charge and reap the profits. Then they flaunt it.

Ads reveal which businesses are vibrant and competitive, and which are not. The most common business is small-scale agriculture, but its practitioners "don't advertise much", notes Kelechi Nwosu of TBWA\Concept, another ad firm. Government ads are dull even by the low standards of official publicity worldwide-contracts often go to the connected, not the creative. That said, one of President Goodluck Jonathan's election slogans was pretty snappy: "I once had no shoes. If I can make it, you can too".

The sexy sectors are mobile phones, banks, beer and food. Mobiles have hit Nigeria like a rainstorm in the desert. The number of connections has shot up from almost none in 2000 to 75m in 2009. Competition is bloody. Ads stress price (since Nigerians are both chatty and price-sensitive) and coverage (which is spotty).

Ads for banks have taken off as the financial industry has been liberalised over the past decade. Most emphasise how trustworthy they are, a crucial point in a country where, if you don't write "This house is not for sale" on your house, someone may sell it while you are away. Stanbic's television ads show a banker so attentive that he watches over you as you sleep.

Beer ads tend to be macho. Guinness boasts that it is "without equal" and promotes "greatness". The firm does not propagate the myth, widely believed in Nigeria, that its extra-strong African stout makes one a stallion in bed. But it does not go out of its way to scotch it, either. Star, a popular clear beer, appeals to patriotism: "I am Nigeria...and Star is my beer".

Indeed, patriotism sells. Foreign firms assimilate or die. Virgin Nigeria, the local affiliate of a British airline, has changed its name to Air Nigeria, and insists in its publicity that it is "Passionately African".

The more affluent, younger consumers (half the population is under 20) tend to be knowledgeable about foreign brands but intensely proud of their own culture, says Mr Nwosu. They refer to Nigeria as "Naija" or "9ja", a term that implies a love of "the food, the flamboyant dressing, the mannerisms, the boisterous-some say loud-interaction among complete strangers" that remind you that you are not in Switzerland, says Bilkisu Labaran, a Nigerian presenter on the BBC World Service. Smart firms wrap themselves in Naija-ness. Etisalat, a mobile-phone carrier from the UAE whose Nigerian numbers begin with "0809", has branded itself "0809ja".

Running an ad agency in Nigeria is not easy. In 2009 TBWA\Concept spent over 7m naira on diesel for its backup generator, grumbles Mr Nwosu in his icily air-conditioned office in Lagos. Fitful power means firms often pay for television ads that viewers do not get to see.

Even so, the next big thing will be digital ads, says Tolu Ogunkoya of mediaReach OMD. Facebook has 3m Nigerian users and will probably have 7m this year, he reckons. "It may overtake radio and press in the not-too-distant future," he predicts. Any business that relies on Nigerians' love of socialising ought to do well.

Schumpeter

A $300 idea that is priceless

Applying the world's business brains to housing the poor



FRIEDRICH ENGELS said in "The Condition of the Working Class in England", in 1844, that the onward march of Manchester's slums meant that the city's Angel Meadow district might better be described as "Hell upon Earth". Today, similar earthly infernos can be found all over the emerging world: from Brazil's *favelas* to Africa's shanties. In 2010 the United Nations calculated that there were about 827m people living in slums-almost as many people as were living on the planet in Engels's time-and predicted that the number might double by 2030.

Last year Vijay Govindarajan, of Dartmouth College's Tuck School of Business, along with Christian Sarkar, a marketing expert, issued a challenge in a *Harvard Business Review* blog: why not apply the world's best business thinking to housing the poor? Why not replace the shacks that blight the lives of so many poor people, thrown together out of cardboard and mud, and prone to collapsing or catching fire, with more durable structures? They laid down a few simple guidelines. The houses should be built of mass-produced materials tough enough to protect their inhabitants from a hostile world. They should be equipped with the basics of civilised life, including water filters and solar panels. They should be "improvable", so that families can adapt them to their needs. And they should cost no more than $300.

Mr Govindarajan admits that the $300 figure was partly an attention-grabbing device. But he also argues that it has a certain logic. Muhammad Yunus, the founder of Grameen Bank, has calculated that the average value of the houses of people who have just escaped from poverty is $370. Tata Motors has also demonstrated the value of having a fixed figure to aim at: the company would have found it more difficult to produce the Tata Nano if it had simply been trying to produce a "cheap" car rather than a "one lakh" car (about $2,200).

The attention-grabbing certainly worked. The blog was so inundated with positive responses that a dedicated website, 300house.com, was set up, which has attracted more than 900 enthusiasts and advisers from all over the world. On April 20th Mr Govindarajan launched a competition inviting people to submit designs for a prototype of the house.

Why has a simple blog post led to such an explosion of creativity? The obvious reason is that "frugal innovation"-the art of radically reducing the cost of products while also delivering first-class value-is all the rage at the moment. General Electric has reduced the cost of an electrocardiogram machine from $2,000 to $400. Tata Chemicals has produced a $24 purifier that can provide a family with pure water for a year. Girish Bharadwaj, an engineer, has perfected a technique for producing cheap footbridges that are transforming life in rural India.

Another reason is that houses can be such effective anti-poverty tools. Poorly constructed ones contribute to a nexus of problems: the spread of disease (because they have no proper sanitation or ventilation), the perpetuation of poverty (because children have no proper lights to study by) and the general sense of insecurity (because they are so flimsy and flammable). Mr Govindarajan's idea is so powerful because he treats houses as ecosystems that provide light, ventilation and sanitation.

Numerous innovators are also worrying away at this nexus of problems. Habitat for Humanity, an NGO, is building durable houses of bamboo in Nepal. Idealab, a consultancy, is on the verge of unveiling a $2,500 house that will be mass-produced in factories, sold in kits and feature breakthroughs in ventilation, lighting and sanitation. Philips has produced a cheap cooking stove, the Chulha, that cuts out the soot that kills 1.6m people a year worldwide. The Solar Electric Light Fund is demonstrating that you can provide poor families with solar power for roughly the same cost as old standbys such as kerosene and candles.

Profits and other problems

These thinkers, like the advocates of the $300 house, must solve three huge problems to succeed. They must persuade big companies that they can make money out of cheap homes, because only they can achieve the economies of scale needed to hit the target price. They need to ensure sufficient access to microloans: $300 is a huge investment for a family of squatters living on a couple of dollars a day. And they need to overcome the obstacle that most slum-dwellers have weak or non-existent property rights. There is no point in offering people the chance to buy a cleverly designed house if they have no title to the land they occupy. Solving these problems will in turn demand a high degree of co-operation between people who do not always get on: companies and NGOs, designers and emerging-world governments.

However, the exciting thing about the emerging world at the moment is a prevailing belief that even the toughest problems can be solved. And a similar can-do moment, in the late 1940s, offers a striking historical precedent for the application of mass-production techniques to housing: as American servicemen flooded home after the second world war to start families, Levitt & Sons built Levittowns at the rate of 30 houses a day by mass-producing the components in factories, delivering them on lorries and using teams of specialists to assemble them.

Some emerging-world governments are beginning to realise that providing security of tenure is the only way to deal with the problem of ever-proliferating slums. And big companies that face stagnant markets in the West are increasingly fascinated by the "fortune at the bottom of the pyramid". Bill Gross of Idealab reckons the market for cheap houses could be worth at least $424 billion. But in reality it is worth far more than that: preventing the Earth from becoming what Mike Davis, a particularly gloomy follower of Marx and Engels, has termed a "planet of slums".

Economist.com/blogs/schumpeter

Index | Business

Apology: William Weldon

Our apologies for misspelling the name of William Weldon, Johnson & Johnson's chief executive, in last week's Business section.

Index | Briefing

Decline of the working man

Why ever fewer low-skilled American men have jobs

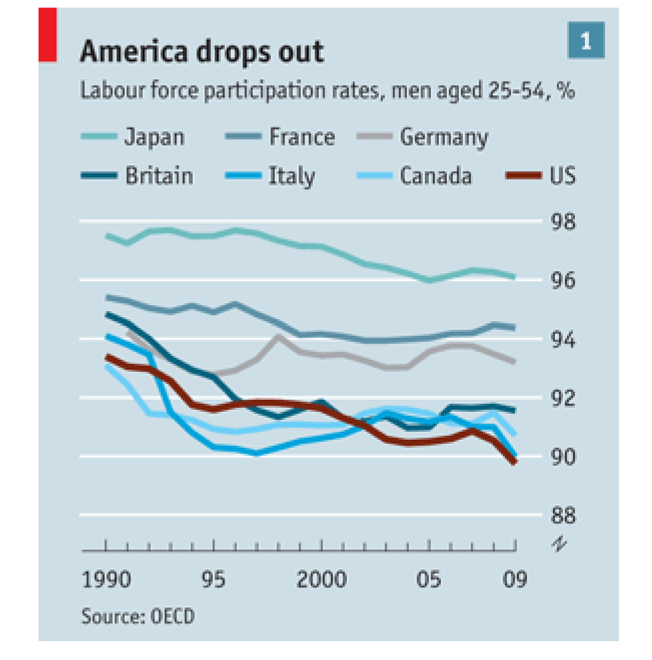


FRANCIS MCCLOSKEY lost his job at the Philadelphia city government's information hotline in August 2009. Twenty months and more than 1,000 job applications later he is still out of work. He has attended scores of jobs fairs, sought help from job-search coaches and cold-called dozens of companies. This year he has been asked to only three interviews. Soon Mr McCloskey will join the growing ranks of "99ers", Americans who have drawn jobless benefits for the maximum 99 weeks. His worry is plain: "I'm really drawing a blank on what I'll do then."

To William Bradley the labour market looks even bleaker. Despite having a degree in public administration and applying for "more jobs than I can count", Mr Bradley has had only the odd stint as a telephone surveyor. His problem is that his degree was earned in prison, whence he was recently released. "My criminal record is the primary barrier to getting a job."

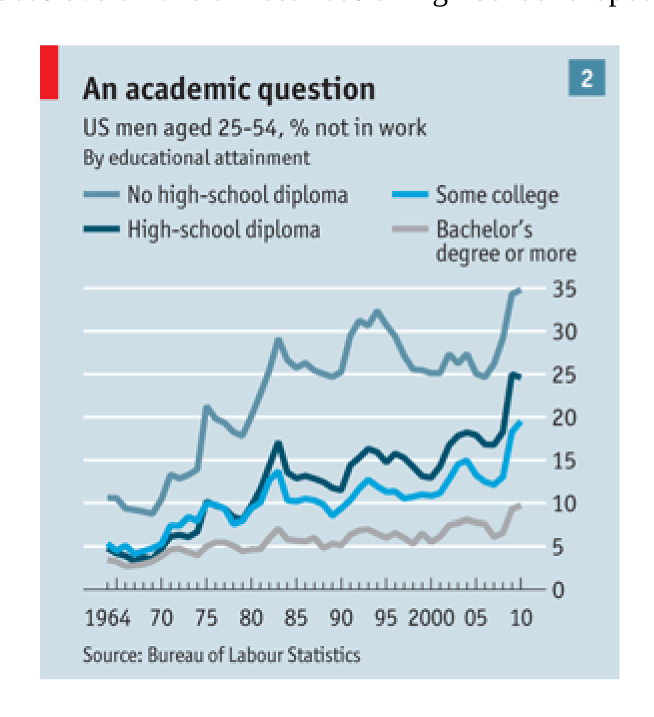
One recent morning both men spent two hours at a weekly "jobs club" organised by the Philadelphia Unemployment Project, an advocacy group. Most who attend are men; most have low or middling skills; several have criminal records. The group helps with computer training, writing resumes and interview techniques. At the weekly meetings tips can be shared ("McDonalds is hiring 1,000 people") and frustration vented ("If you can't work, you start feeling less of a man").

The project is at the sharp end of one of America's biggest economic problems: the decline in work among men. Of all the big, rich Group of Seven economies, America has the lowest share of "prime age" males in work: just over 80% of those aged between 25 and 54 have a job. In the late 1960s 95% worked.



This collapse of work partly reflects the recession of 2008-09, which drove America's unemployment rate into double digits. It is still high-9.3% for men-and almost half of the jobless have been out of work for more than six months. But there is another cause, less noticed and of longer standing. To count as unemployed, you have to be looking for work, yet ever more men have simply dropped out of the recorded labour force. Some, it is true, work "off the books"; but many receive disability insurance, are in prison, live on spouses' or partners' incomes, or have otherwise given up looking for a job. America has a smaller share of prime-age men in the workforce (ie, in a job or seeking one) than any other G7 economy (see chart 1).

The decline of the working American man has been most marked among the less educated and blacks. If you adjust official data to include men in prison or the armed forces (who are left out of the raw numbers), around 35% of 25- to 54-year-old men with no high-school diploma have no job, up from around 10% in the 1960s. Of those who finished high school but did not go to college, the fraction without work has climbed from below 5% in the 1960s to almost 25% (see chart 2). Among blacks, more than 30% overall and almost 70% of high-school dropouts have no job.



These figures are likely to improve as the economic recovery continues, but probably not by much. The pattern of the past four decades suggests a ratchet effect: the share of poorly educated men in work falls in recessions and fails to recover fully in subsequent expansions. The effect could be especially strong this time.

One reason for this is that less-educated men are disproportionately likely to work on building sites and in factories, where lots of jobs were lost in 2008-09. Another is that the recession fell heavily on poorly educated young people. Teenage employment rates slumped to the lowest on record. Those who enter adulthood without a job or a college place are much less likely to work when they are older. Larry Summers, Barack Obama's former chief economic adviser, worries that

even when "full employment" returns later this decade, on recent trends around 15% of all men, 20% of men who have not been to college, 35% of those who did not finish high school and more than 60% of black male high-school dropouts will probably not be working.

Widespread male worklessness has huge economic, fiscal and social costs. It reduces America's economic potential. It deepens its budgetary hole, because less tax is raised and more is spent on those out of work. The fraction of prime-age men on disability benefits, for instance, has more than tripled from 1.5% in 1970 to 4.9%. Federal spending on such benefits amounts to $120 billion a year, almost 1% of GDP.

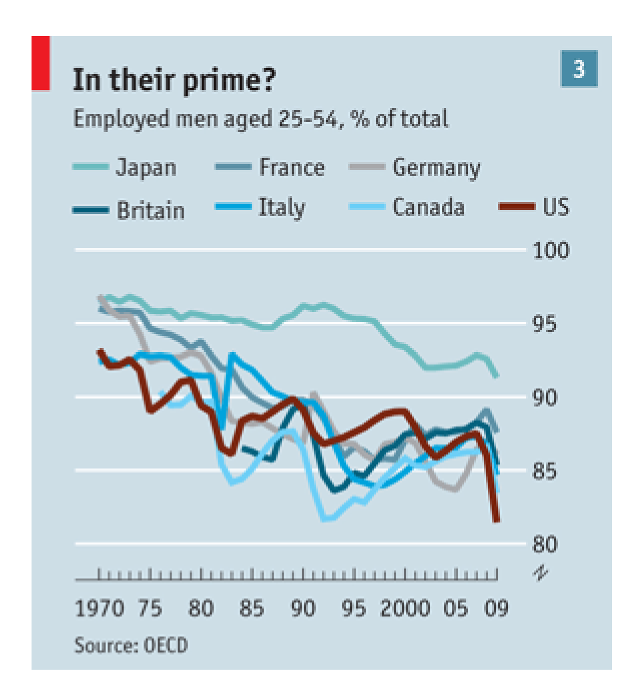
As fewer men work, poverty becomes more entrenched. Back in the mid-1960s Daniel Patrick Moynihan raised the alarm about the link between joblessness and the decline of the black American family. He argued that men without work become less attractive as marriage partners and more likely to turn to crime. Male employment rates and marriage rates have fallen since, for both blacks and whites. The proportions of white men without jobs and of white children living with one parent are both roughly where they were for blacks when Moynihan's report was published.

Despite all this, worklessness among less-educated men does not seem to be a priority for American politicians of either party. This is a pity, not just because the problem is big but also because a close look at its causes suggests reforms that could help to counter the trend.

Falling behind

The main reason why fewer men are working is that sweeping structural changes in rich economies have reduced the demand for all less-skilled workers. Manufacturing has declined as a share of GDP, and productivity growth has enabled factories to produce more with fewer people. Technological advances require higher skills. For the low-skilled, low demand has meant lower wages, both relative and absolute. This in turn reduces the incentive to find a job, especially if disability payments or a working spouse provide an income.

Men have been hit harder than women by these shifts. They are likelier to work in manufacturing; women have been better represented in sectors, such as health care and education, where most job growth has taken place. Women have also done more than men to improve their academic credentials: in most rich countries they are likelier than men to go to university.



Broadly speaking, this is a common story across the rich world: in virtually all OECD countries male employment rates are lower than they were 40 years ago, and the decline in America's rate since the 1970s is similar to others in the G7. But in America the timing has been different: the fraction of men in work has fallen especially quickly in recent years (see chart 3).

The puzzle is why America's less-skilled men have been hit harder of late. One possibility is that American capitalism is especially competitive, spurring faster innovation than in other countries and more ruthless cost-cutting in hard times.

Thus in the past 15 years low-productivity jobs have been swept away more quickly in America than elsewhere and the recent recession had a far greater impact on employment in America than in Europe.

A second explanation is that American men have let their schooling slide. Those aged between 25 and 34 are less likely to have a degree than 45- to 54-year-olds. As David Autor of MIT points out, they are also less likely to have completed college than their contemporaries in Britain, Denmark, France, Ireland, the Netherlands and Spain. In recent years America's university graduation rates have slipped from near the top of the world league to the middle. Men are far likelier than women to drop out. Their record at school is bad too. This educational decline has a racial edge. Black and Hispanic boys are far less likely to graduate from high school than white or Asian youths. A smaller fraction starts college and a larger fraction drops out.

Poor educational performance also interacts perniciously with America's habit of imprisoning large numbers of young black men. Harry Holzer, an economist at the Urban Institute, a think-tank, points out that one black man in three spends some time in prison; for those without a high-school diploma, the rate is two in three. As Mr Bradley's tale illustrates, once you have been in jail, finding a job becomes far harder. Many employers, notably in health care or education, will not consider ex-offenders. Those that do often require a clean record for several years.

A third reason may lie in the effect of government policies on incentives to work. America has taken the flexibility of its labour market for granted. Some European governments, by contrast, have begun to get their act together, albeit from a far poorer starting point.

Northern European countries, in particular, have loosened labour-market rules and reformed benefit systems that for many years reinforced the decline in demand for less-skilled men. They have also encouraged temporary employment contracts and invested heavily in training and job-search to push people into work. America, meanwhile, has spent much less than the Europeans on training and has done less to reform unemployment or disability benefits. To be sure, its labour market is still far more flexible and efficient than Europe's, but its advantage has narrowed, at the expense of the least skilled.

Yet in the 1970s America was at the cutting edge of policies to get the hard-to-employ into work. Jimmy Carter's administration experimented with wage subsidies, ran an array of training schemes and introduced a public employment programme which at its peak provided more than 700,000 jobs. But these policies were tainted by association with "big government": Ronald Reagan scrapped them, slashed funding and reoriented training towards the private sector. America's government today spends 60% less, after adjusting for inflation, on "active" labour-market policies than in 1980, and much less as a share of GDP than almost any other rich country.

According to Stefano Scarpetta of the OECD: "The US used to have a set of far-reaching and effective labour-market policies, but it has disinvested over the past two decades." For most Americans this probably does not matter much: in a largely supple economy, they flow far more smoothly from one job to another as the economic currents change than most Europeans do. But it probably hurts those with fewest skills, who find work hardest to come by in the first place. These people, disproportionately, have been men.

Government policies affect workless men in different ways. Mr Holzer reckons there are two big groups among the long-term jobless: "older dislocateds", less-educated workers who have lost long-lasting jobs, mainly in manufacturing; and "younger never-fully-connecteds", high-school dropouts who have never had much attachment to the workforce.

When work doesn't pay

Policies have created perverse incentives for both groups. The older dislocateds often try hard to be declared officially disabled, even though it can take up to three years and cost several thousand dollars in legal fees, not least because this brings access to Medicare, a government health-insurance scheme. (Many low-wage jobs do not come with health insurance.) But this is also a one-way street to permanent detachment from the workforce. In recent years the government has tried to encourage disability recipients to return to work, for instance by promising that they can stay on Medicare for several years. This scheme, says Larry Katz of Harvard University, has been "utterly ineffective".

For the younger group, one cause of discouragement is the earned-income tax credit (EITC), America's main anti-poverty tool, which tops up poorer people's pay and thus rewards work. It is skewed towards those with children. The maximum EITC top-up for a childless person is less than $500 a year. Families with one child get more than six times as much; those with two, more than ten times. Single, low-skilled men therefore face a lower effective real wage than low-skilled women with children and have less incentive to work.

Child-support rules also discourage poorly skilled men from working. Many are absent fathers, whose child-support payments are often deducted directly from their pay. Some states levy an extra charge to cover welfare payments to the mother. In a dozen states men continue to accrue child-support obligations if they are in prison, from which they can emerge owing thousands of dollars. Deductions can amount to 65% or more of their wages.

All this suggests that policymakers could do a lot more to sharpen men's work incentives. Some progress is being made: Vicki Turetsky, head of the Office of Child Support Enforcement in Mr Obama's administration, is trying to base absentee fathers' payments on their ability to pay rather than a standard schedule. Some ideas have been proposed but not taken up: for example, politicians from both parties have at times suggested expanding EITC to single workers. But politicians are ignoring much of the problem. Congressmen have fought bitterly over whether to extend unemployment benefits, with Republicans arguing that it would blunt incentives to work, yet no one has paid attention to the costly rise in disability rolls.

There is no shortage of ideas. Mr Autor and Mark Duggan of the University of Maryland propose emulating the Dutch, who have made disability insurance less of a one-way street by putting employers on the hook for the first few years' payments. Other academics want to overhaul unemployment insurance to top up the pay of those who take low-wage jobs.

Better incentives might encourage low-skilled men to return to the labour market. But without better education or training they are likely to be stuck on its bottom rungs. That raises the question of whether America should spend more on helping them to climb. Studies by the OECD suggest that adult retraining yields gains in future income and employment, even for "older dislocateds". It also seems that training works best when (as now) the overall labour market is weak. And industry-specific training with lots of input from employers seems to be more effective than a general upgrading of skills.

Improving skills would be costly. Putting only 10% of America's jobless men through a two-year community-college course, say, would mean doubling expenditure on training. Budget constraints are pushing Congress in the opposite direction: trade-adjustment assistance, a long-standing scheme to help those deemed to have lost their jobs to globalisation, expired recently. Republicans are keen to make further cuts in training schemes.

For younger men, different strategies are needed, to connect them to the labour market in the first place. Robert Ivry of MDRC, a research body that evaluates policies intended to help poorer Americans, believes that intervention is needed at several stages: to encourage at-risk high-school students to graduate, to foster contacts with future employers and to encourage those who go to college to stay there. He points to the success of Career Academies, organisations in high schools that build connections between pupils and local employers. An MDRC study has found that these academies have raised employment rates and earnings for some of the young men most at risk. However, such schemes are in danger of being pared as government spending is squeezed.

Another approach is to boost the demand for the hard-to-employ. Some favour trade barriers to protect jobs, especially in manufacturing. That would be a mistake, but more sensible policies may be available. In a faint echo of the 1970s Congress introduced a wage-subsidy scheme last year. Mr Obama's stimulus package created around 250,000 subsidised temporary jobs for welfare recipients. The wage-subsidy scheme, though, was too modest to be meaningful and the stimulus package has expired. Some states have been bolder. Georgia allows unemployed people to work up to 24 hours a week for six weeks with a new employer and still draw jobless benefits. The employer gets a look at a potential employee; the worker gets valuable training even if the job doesn't last.



Signs of the times

Such policies will not magically reverse the plight of America's less-educated men, but they might help. It is a shame that American policymakers have barely considered the problem. Both Democrats and Republicans seem convinced that as the economy strengthens the labour market will heal itself. But although unemployment will continue to fall as the economy recovers, millions of American men will be left behind.

Index | Finance and Economics

The Carlyle Group

Time for a threesome

Carlyle's model is not typical of other private-equity giants



PRIVATE-EQUITY executives have spent the past few years half-apologising for their exuberance during the buy-out boom. "I analogise it to sex," said David Rubenstein, co-founder of the Carlyle Group, a large private-equity firm,

describing his industry's attraction to huge, leveraged deals at a conference in 2009. "You realise there were certain things you shouldn't do, but the urge is there, and you can't resist."

DC dealmakers

Most active private-equity firms, 2010

	Number of investments	Aggregate deal value, $bn
Carlyle Group	45	18.6
TPG Capital	26	16.1
CVC Capital Partners	14	13.6
Kohlberg Kravis Roberts	32	12.9
Blackstone Group	40	8.1
Warburg Pincus	25	7.7
Bain Capital	24	7.6
Silver Lake	12	7.2
Apax Partners	10	6.4
Leonard Green & Partners	17	6.3

Source: Preqin

On the face of it, Carlyle has started fooling around again. It completed the most deals and spent the most money of any private-equity firm in 2010 (see table). In January it bought AlpInvest, a private-equity fund of funds that manages euro32.3 billion ($43.3 billion) on behalf of two Dutch pension schemes. The deal will close in the next several weeks, making Carlyle one of the world's two largest private-equity firms, with $150 billion under management-neck-and-neck with the Blackstone Group, and more than twice as big as Kohlberg Kravis & Roberts (KKR).

Size certainly matters for Carlyle, since the firm is expected to go public soon. The more assets and sources of cashflow it has, the more attractive it will be to potential shareholders. But this is not a return to the promiscuity of the boom. Carlyle likes to do things differently. It eschewed the obvious buy-out hubs of New York and London and has its headquarters in Washington, DC, a few blocks from the White House. And whereas most big firms concentrated on billion-dollar "mega-funds" before the crisis and have only recently begun raising smaller, more focused funds, Carlyle has been doing things that way for years. It has 84 active funds, many of which have narrow mandates, like investing in Mexico or energy companies. KKR, in contrast, has around 12 active funds.

Its approach to buy-outs has helped Carlyle raise funds, since the same investor can put more money its way and still get the diversification he wants. It can help protect Carlyle's profits, because even if one of its portfolio companies files for bankruptcy, as five of them did during the crisis, it will not drag down the returns of other funds. The model can also appeal to investors, who want to have a better sense of where their money is going. Gone are the days of people tossing money at big funds that lack a focused mandate. Around 68% of Carlyle's private-equity funds have exceeded the median fund return for their type, according to Preqin, a research firm.

But Carlyle's model has drawbacks, too. Its back-office costs are enormous and believed to be larger than any other private-equity firm, since it has so many funds to oversee. If investors choose sector-focused funds they may want to go with firms that specialise in one sector. Carlyle has had some misses by being in so many areas.

It will also find it harder to differentiate itself as rivals try to reduce their reliance on big buy-outs and expand their geographic reach. Carlyle was one of the first firms to go into China, for instance, and the first American firm to raise a yuan-denominated private-equity fund, but it now faces competition from other American firms there, and Chinese ones as well.

One tactic is to go to places no one else is. The firm recently announced it would start raising a sub-Saharan Africa private-equity fund. None of its competitors is there yet, which gives it an edge. But it carries clear risks. A fund has to reach a certain size, of around $500m, in order to support the staff working on it, says Mr Rubenstein. In the past Carlyle has halted or spun off funds that could not get that big. There also have to be enough large deals to use the money on, and enough talent to oversee what are likely to be more risky transactions. "Africa is not for the faint of heart," says Mr Rubenstein.

Nor the short of capital. "Deal-making is back. Investments are coming back. Exits are coming back. Fund-raising isn't coming back," says Mr Rubenstein. That helps explain why Carlyle is working so hard to expand beyond private equity, although it has been slower than some to do so. The firm's web profile describes it as a "global alternative asset manager", and makes only one reference to private equity.

Carlyle has thrown itself into the area of credit, buying up huge swathes of collateralised loan obligations and taking a majority stake in Claren Road, a credit hedge fund. In December of last year Carlyle managed nearly $21 billion in assets in its "global market strategies" bucket, which includes its credit funds, up by nearly 57% from December 2009. Expansion into other areas carries risks: in 2008 a fund that invested in mortgage-backed securities, Carlyle Capital, failed spectacularly, and the firm also had to wind down its multi-strategy hedge fund. These failures probably explain why Carlyle has focused since then on acquiring existing businesses, rather than starting new ones from scratch.

Its acquisition of AlpInvest makes it the first major buy-out firm to have a private-equity fund of funds. This will help expand Carlyle's clientele by attracting investors who want to allocate cash to private-equity but need some extra hand-holding. Some have expressed concern that Carlyle will sit on AlpInvest's board and have access to proprietary information about its competitors, which AlpInvest invests in.

Carlyle has promised to erect Chinese walls between itself and AlpInvest, part of its ongoing efforts to polish a public image that has been battered in the past. Industry executives know better than to speak critically about the firm on the record. "Carlyle's tentacles are long," says a former executive. "They want to make sure people are not out there saying negative things in the market."

Such sensitivity will only increase as the firm gears up for an expected listing. Some say it may even file this year, following Blackstone, KKR and, most recently, Apollo Global Management onto the public markets. Perhaps. Those firms that have gone public have not wowed shareholders. Blackstone is down by around 45% from its flotation at the peak of the market, though it has risen by 34% from this time last year. Apollo has barely budged since its initial public offering on March 30th. How Apollo fares is not likely to deter Carlyle from listing, but it could encourage it to hold fire.

Any public shareholder will want to know who will head Carlyle once the three founders who are still at the firm retire. Mr Rubenstein fundraises and is Carlyle's public face; the other two mostly stay out of sight. Bill Conway is the chief investment officer and Dan D'Aniello runs the real-estate funds. The three have a notably symbiotic relationship: employees refer to them collectively as "DBD". It is unlikely all three would be chief executive when Carlyle goes public, and they have given no indication on who will succeed them. The private-equity industry is still largely run by its founders. In this respect, at least, Carlyle is no different from the rest.

Index | Finance and Economics

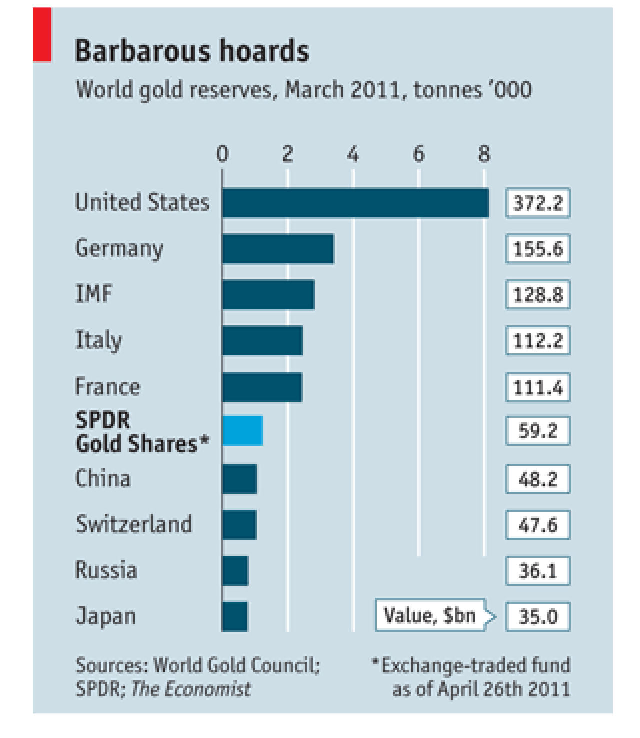
Buttonwood

Gilt-edged argument

The battle to explain the remorseless rise of the bullion price

THOSE people who thought that reaching $1,000 an ounce was a sign that the bull market in gold was about to collapse have been proved wrong. The price of bullion recently passed $1,500.

Gold can be viewed in many ways: as a "barbarous relic" that is currently the subject of a speculative bubble; as the one reliable source of value over history; as a harbinger of hyperinflation; as a hedge against global financial or economic collapse; or even as a sign of the rising power of China and India.



Whichever factor you choose to explain gold's bull run, it is not a short-term phenomenon. Since 2002 the average annual price of gold has risen by double digits in percentage terms in every year bar one (2005, when it gained 8.7%). As yet gold's price chart does not display the classic bubble characteristic whereby the pace of increase seems to accelerate (although silver has been conforming to that pattern lately).

Gold does exhibit another bubble-like feature, however-the increasing participation of the public. When the last gold bull market peaked in 1980 speculators took part by buying jewellery or coins, complete with retailers' markups. This time round they are able to buy exchange-traded funds (ETFs) which promise a return linked to the bullion price. As the chart shows, the largest gold ETF has a gold hoard that places it on a par with the reserves of central banks.

Another sign of bubbles is a change in the basis of valuations. Dotcom shares were assessed in terms of "price per click" rather than anything tangible. Here gold presents a problem. It has no earnings or cashflow so it is harder to come up with a fair price.

One approach is to use gold's purchasing power in terms of life's essentials such as energy and food. An ounce of gold was worth 12 barrels of oil at the start of 1986; now it is worth around 13. Its purchasing power in terms of wheat has risen more sharply over the past quarter-century but is much lower than it was a year ago.

Mostly, however, gold's price is expressed in terms of the dollar. So its strength may simply be down to a lack of confidence in paper currencies rather than its own merits. Whereas a strong currency was once a symbol of national pride, few countries appear to relish the prospect today. Central banks have slashed interest rates to almost zero, expanded their balance-sheets (and thus the monetary base) to buy government bonds and, in the case of Japan and Switzerland, intervened to weaken their currencies.

The Swiss franc is usually seen as a very strong paper currency. Gold is 17% higher in Swiss-franc terms than it was at the start of 2010. Remember that, until 1971, the value of most currencies was expressed in terms of gold or silver. On that basis the Swiss franc has just experienced the kind of devaluation that would have been the mark of a crisis in the 1930s or 1960s.

In the eyes of many commentators this lack of confidence in paper currencies makes sense only if high inflation is on the way. But in the developed world measures of consumer inflation are very low. There is spare capacity in the economy and no sign that a wage-price spiral is taking hold. And government-bond markets show no sign of alarm at the inflationary outlook.

Then again, since central banks are such big players in government-bond markets these days, is the yield a true "market price"? The banks are buying bonds as part of their foreign-exchange policies, or as a way of injecting liquidity and bringing down yields, rather than as a way of maximising their returns.

Then there is the issue of higher commodity prices. Jeremy Grantham of GMO, a fund-management group, has compiled an equally weighted index of 33 commodities. This fell by 70% between 1902 and 2002 in real terms. It has regained all that ground in the past nine years. The rise of developing nations is generally deemed to explain this commodities boom. Since raw materials have greater weight in the inflation baskets of such countries, it makes sense for investors in China and India to buy gold as a hedge against this phenomenon.

If it turns out that China (rather than gold) is a bubble and that growth in developing nations disappoints, then you would expect commodity prices to fall sharply and gold to follow suit. But in the absence of such an event, gold's strength is not entirely irrational.

Economist.com/blogs/buttonwood

The Doha round

Dead man talking

Ten years of trade talks have sharpened divisions, not smoothed them



Some things in Doha will get completed

IT WAS meant to be the beginning of the end. For months, insiders at the World Trade Organisation (WTO) in Geneva have argued that the release of a revised set of negotiating texts in the Doha round of trade talks was a necessary condition for a deal by the end of 2011. Necessary, perhaps, but hardly sufficient. The documents came out on April 21st but in a blunt assessment of the state of affairs, Pascal Lamy, the head of the WTO, pointed to "a clear political gap" which "is not bridgeable". A deal this year is in "serious doubt", he suggested.

The last big push to complete the round collapsed in a bout of finger-pointing in July 2008. Optimists argued that differences between rich countries, led by America and the European Union, and emerging ones, led by China, India and Brazil, could be ironed out if only there were enough effort. The arrival of Michael Punke as America's ambassador to the WTO in March 2010 did cause serious discussion to resume, but rather than hasten convergence it seems to have exposed new areas of discord.

In 2008 disagreement centred on developing countries' ability to respond to surges in agricultural imports. Now it appears that the real bone of contention is the aim of proposed cuts in tariffs on manufactured goods. America sees the Doha talks

as its final opportunity to get fast-growing emerging economies like China and India to slash their duties on imports of such goods, which have been reduced in previous rounds but remain much higher than those in the rich world. It wants something approaching parity, at least in some sectors, because it reckons its own low tariffs leave it with few concessions to offer in future talks. But emerging markets insist that the Doha round was never intended to result in such harmonisation. These positions are fundamentally at odds.

In his note Mr Lamy urged member states to think hard about "the consequences of throwing away ten years of solid multilateral work". In fact, those ten years may be at the root of the Doha impasse. Over that period the heft of emerging economies has increased dramatically. Less than half of global GDP growth came from outside the rich world between 1998 and 2001, but the IMF reckons that almost 75% of the addition to world GDP between 2011 and 2014 will do so. So rich countries are much more concerned about access to emerging markets than they were when the goals for the Doha round were set.

Emerging markets' goals have changed, too. Many developing countries are now more bothered about keeping food prices in check than about keeping rich-world subsidies down. In addition, argues Aaditya Mattoo of the World Bank, countries like India and Brazil are now more worried about cheap imports from China than about imports from the rich world. In essence, they might be more willing to open their markets to rich countries if doing so did not simultaneously let in more Chinese goods.

Some in Geneva are floating the idea of salvaging something from the talks by hiving off the least contentious bits in a Doha-lite agreement. Hardly what the world's leaders had in mind when the round started in 2001. But when nothing is the alternative, it looks more attractive.

Index | Finance and Economics

The Canton Fair

The China price

At the front line in the battle between Chinese suppliers and their customers



BUYERS who come back for every iteration of the historic Canton Fair, a twice-yearly trade fair in Guangzhou, will tell you that only one thing really changes: the reasons given by suppliers for why dirt-cheap prices have to go up. In 2008 price increases were blamed on factory relocations required for the Olympics; in 2009 it was floods and power shortages; and in 2010 it was labour and regulation. At this year's spring fair, which runs from April 15th to May 5th, the battle over pricing is being fought more keenly than ever.

To an outsider, the prices alone suggest there is nowhere to go but up. A nicely packaged toothbrush sells for just $0.10, sunglasses for $1-3, watches for under $2 and office chairs start at under $30 (with the proviso that in each case the order must be for hundreds of items or more).

The list of pressures on suppliers, meanwhile, runs on and on. Labour is not only expensive, it is scarce at almost any cost. Even the most lethargic salesperson can provide a take on the impact of commodity prices-be it petroleum, steel, cotton or wood-on products.

Smaller sellers also mention the pinch of pricier credit. Last October the one-year corporate lending rate that serves as a widely cited benchmark was 5.31%. In April, after a series of increases, it reached 6.31%. That increase is substantial enough-almost 20%-but the true extent of the tightening seems to be much greater than official rates suggest.

That is because a lot of lending in China takes place in shadowy private markets. According to Macquarie Securities, the so-called "Wenzhou rate", based on the private-borrowing market in a famously entrepreneurial city in south-east China, has risen to 6-8% a month, up from about 1.5% a month in late 2008 and matching levels seen in early 2008 when credit was genuinely scarce. Pawnbrokers, Macquarie adds, are charging 4% a month for loans that are, by their very nature, fully secured.

Access to lower rates seems, at least in part, tied to how much employment a company provides. The bigger manufacturers-those with perhaps more than 10,000 workers-seem sanguine about getting hold of credit (if not workers and materials). Smaller suppliers are in a tougher position, which gives added clout to the trade buyer who can pay more upfront or the full balance fast or, preferably, both.

As is often the case in China, new terms are being added to contracts sealed at the fair. The most significant stipulations are tied to movements in the yuan, says Paul McLaughlin, a longtime trade-fair customer from a British sourcing company,

Libra. In the past prices offered by suppliers were good for three months. At this year's fair there is a broadly accepted provision that voids any price offer if the yuan appreciates to 15.4 cents or more (it is currently worth 15.3 cents). Mr McLaughlin's suppliers are also uncharacteristically willing to levy huge increases-in one case, of 40%-and walk away if the terms are not met.

They are willing to do so despite the fact that returning customers like Mr McLaughlin are thinner on the ground this year. One large manufacturer says the number of visitors is down by more than 15% (whatever official figures might say) because Arab, Japanese and European buyers are preoccupied by domestic problems.

The notion that disruptions like the Japanese earthquake and unrest in the Middle East could push prices down is not much discussed at the fair, but the possibility of an abrupt price decline is hardly inconceivable. China's inflationary problems first surfaced in food prices, and food prices may also herald the disinflation to come. In 2009 vegetable prices shot up; they were strong last year as well. Good arguments were given for these price gains-among them, that increased wealth and better nutrition lead to ever more consumption-and investment and production ballooned. But the prices of many vegetables have since crashed, with *China Daily* giving front-page treatment to a farmer in Shandong province who, faced with vast losses, committed suicide. Suppliers may have the upper hand for now but old trade-fair hands will tell you that arguments about price are never over.

China's current-account surplus

Incredibly Misleading Forecasts?

How not to predict one of the world's most sensitive numbers



THE leaves of the compass plant always point north. The International Monetary Fund has developed a similar trait. Over the past four years, in successive editions of its "World Economic Outlook", the fund has forecast that China's current-account surplus would widen over the next five years, or at least remain constant. Instead the surplus has consistently fallen, from 10.6% of GDP in 2007 to 5.2% last year (see chart). Undeterred, in its latest forecast the IMF says that China's surplus will rise to 6.8% of GDP in 2013 and almost 8% by 2016.

The decline in China's surplus is partly due to the slump in its exports caused by the unexpectedly deep recession in rich economies. Could this explain the IMF's overshooting? Not really: the IMF was wider of the mark than most forecasters. In April 2009, when it predicted a surplus of 9.3% of GDP for 2010, the average forecast of five investment banks was 6% of GDP.

The IMF may have been too pessimistic about growth in China's domestic demand (and hence its imports), but a bigger problem is the exchange rate it uses. The fund always assumes that real trade-weighted exchange rates remain constant, and because China has higher inflation than America this has often implied a depreciation in its nominal exchange rate. (The IMF does not actually spell out its forecast for the yuan but this can be calculated by dividing GDP in yuan terms by dollar GDP.) For example, its latest forecast implicitly assumes that the yuan will weaken to an average rate of 7.04 to the dollar in 2013 from a current rate of 6.53. Most forecasters assume a further appreciation against the dollar. Paul Cavey at Macquarie has pencilled in a rate of 5.8 yuan to the dollar for 2013, for example, when he expects the current-account surplus to be 3.6% of GDP.

Since 2007 the yuan's real trade-weighted value has not been constant, as the IMF always assumes, but has risen by 15-20%, helping to trim China's surplus. A forecast which assumes that the yuan steadily depreciates against the dollar seems unrealistic. Yet by predicting a widening current-account surplus in China, the IMF provides respected fodder for protectionists who want to slap tariffs on Chinese goods. The fund badly needs a new compass.

Index | Finance and Economics

The Federal Reserve

Ben meets mike

The chairman's press conference

APRIL'S policy statement by the Federal Reserve was a dull one by the standards of central banks, which is saying something. Growth looks softer than expected and inflation is a smidgen more energetic. Still, America's central bank will complete its $600 billion programme of asset purchases as scheduled, and the language promising near-zero interest rates for an "extended period" didn't change. Markets yawned.

The financial press, however, was astir. The April 26th-27th meeting of the Fed's policy committee concluded with an historical first, as Ben Bernanke, the Fed chairman, welcomed journalists into the central bank's headquarters in Washington, DC for a press conference. The introduction of a Q&A session brings the Fed into line with the Bank of England and the European Central Bank, and represents a further step in its campaign to increase transparency.

There were some titbits. Asked about the large increase in forecast inflation for 2011, up to between 2.1% and 2.8% from the 1.3-1.7% January estimate, Mr Bernanke blamed rising energy costs which, he said, should stabilise or fall in the near future. The slow pace of recovery in labour markets was of great concern, he admitted, but the inflation trade-offs from additional asset purchases are "getting less attractive". Markets should not expect another round of quantitative easing, or QE3.

Openness went only as far as the chairman allowed. The back-and-forth was respectful and restrained, as the gathered journalists pressed Mr Bernanke to express some certainty about a decidedly uncertain economic outlook. He rarely dodged questions, but nor did he let slip any market-moving news.

What the press conference did add was a touch of theatre. Mr Bernanke sat behind a rather large mahogany desk, looking strikingly as though he were about to bang out a tune on an upright piano. Instead, he began the press conference by reading out a summary of the Fed's statement and its economic projections. The text closely followed the written material normally released after the Fed's policy meetings. But when Mr Bernanke read that conditions "are likely to warrant exceptionally low levels for the federal funds rate for an extended period", his voice reached a dramatic crescendo on "exceptionally". It's a whole new game for Fed-watchers.

Index | Finance and Economics

Petri-dish economies: Poland

Few woes in Warsaw

The third in our series looks at Poland, an emerging market that remained insulated from shocks on its doorstep



POLAND is the only economy in the European Union that kept growing all the way through the crisis. Its ability to insulate itself from external shocks stems partly from history and geography. It is by far the biggest economy in central Europe (making up 40% of the GDP of the EU's ten new ex-communist members), and gets lots of oomph from domestic demand. Expansion in neighbouring countries, mainly Germany, is now stoking Polish growth, forecast at around 4% this year and next.



But Poland also entered the crisis in sound shape. Its banks were stodgy in their lending. The property market stayed unbubbly in most of the country. Monetary policy had been overly tight in the early years of the last decade. That slowed growth then, but proved a blessing later.

Another advantage was a floating exchange rate: the Polish zloty plunged during the downturn, helping exporters and the tourism industry. In the Baltic states (which had currency boards) and Slovakia (which adopted the euro in 2009) the burden of adjustment went uncushioned, meaning cuts in nominal wages.

Protection against external shocks gave Poland's policymakers plenty of room for manoeuvre. They did not need to hike interest rates to save the currency and soothe investors. They did not need a pro-cyclical fiscal policy to stave off default or devaluation. Instead Poland could afford a classic Keynesian response to the downturn. The government ran big budget deficits (7.3% in 2009 and 7.9% last year), a hefty fiscal stimulus that kept domestic consumption purring along while it collapsed elsewhere. For many of Poland's peers the crisis exposed the narrow base of their economies. When construction, exports and investment plunged, nothing could take up the slack. In Poland, the consumer kept spending.

For the stimulus to work, outsiders had to be willing to lend. Poland was well served by its finance minister, Jacek Rostowski, a sardonic English-born economics professor, who adeptly managed the borrowing splurge. Poland's credit rating barely budged as that of some other ex-communist countries plunged. It helped that Poland in 2009 gained, and did not need to use, a $20 billion credit line from the International Monetary Fund.

Wider worries about the euro zone and currencies on its periphery may have helped Poland, too. They kept away the hot money that has sent exchange rates soaring in other emerging-market stars. Even when the zloty hardened, demand from Germany kept exports booming (keen prices and flexible workers make Polish subcontractors a vital part of the Teutonic trade machine). "Germany helped save Mitteleuropa," says Marcin Piatkowski, a Warsaw-based World Bank economist. Poland has replaced Russia as Germany's main eastern trading partner, even including energy.

Another boon has been money from abroad. A million or more emigrants send home remittances (worth $9 billion in 2010, according to the World Bank). Poland was also allocated euro67 billion ($92 billion) in EU funds for 2007-13. That is paying for new roads, faster railways and lavish training programmes. After a slow start, the Polish bureaucracy has proved one of the most effective spenders of this bonanza (efficiency is another story).

The result is a superficially happy picture: broad-based growth, falling unemployment, affordable borrowing and rising investment. But the current account and inflation are worries; so is the budget deficit, which the government said on April 26th it would cut to 2.9% in 2012.

Yet if Poland still wants to join the euro (perhaps in 2015), it will do so in better shape than many existing members. Mr Piatkowski speaks of a "New Golden Age", with Poland converging on west European levels of well-being soon after 2020. That is a fine goal. But first Poland must master its public finances, stoke innovation, widen labour-market participation and deal with the red tape that drags it down international rankings. Poles grumble about such things. They should fix them, too.

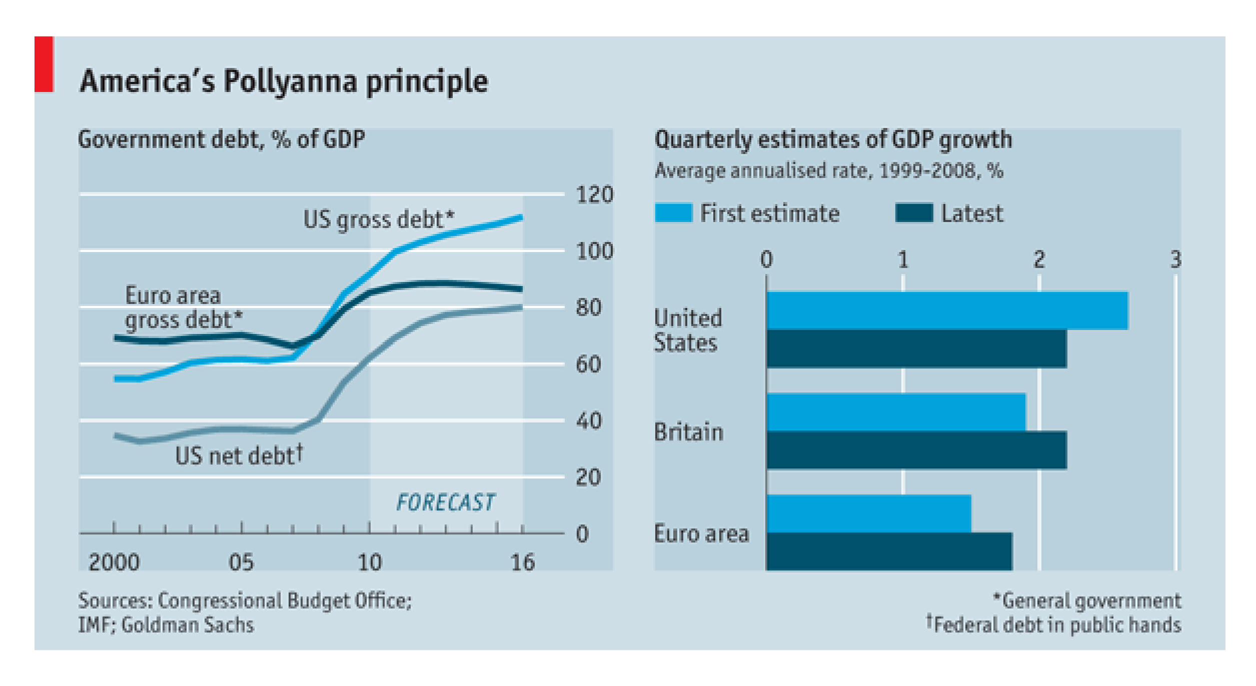
Index | Finance and Economics

Economics focus

Botox and beancounting

Do official statistics cosmetically enhance America's economic appearance?

COSMETIC surgery is more popular in America than in Europe. Statistics, too, may be making things there look less saggy. For several headline economic gauges, America uses a different (and more flattering) measure from that employed on the other side of the Atlantic. The number-crunchers are not deliberately massaging the figures but the effect of some of America's official statistics is to Botox its performance relative to Europe's.



Take public-sector debt. The definition used in Washington, DC, is "federal government debt held by the public", which stood at 62% of GDP at the end of 2010. But if you instead use Europe's preferred measure-general government gross debt,

which also includes the borrowing of state and local governments and Treasury securities held by other government bodies, such as the Social Security Trust Fund-it jumps to 92% of GDP (see left-hand chart). That is on a par with Portugal's level of public debt. Likewise, America's budget deficit of 8.9% of GDP last year would have been 10.6% using Europe's preferred measure.

Official figures also flatter America's relative performance on productivity growth. The headline figures compiled by America's Bureau of Labour Statistics are based on output per man-hour in the non-farm business sector. The European Central Bank tracks GDP per worker across the whole economy. By excluding the less efficient public sector, America's productivity growth is bumped up. And by taking output per worker rather than output per hour, Europe's measured productivity growth is reduced because average hours worked have fallen. Between 1995 and 2010 America's real GDP per hour worked rose by an annual average of 2.1%, considerably less than the 2.7% rate in the non-farm business sector although still faster than the 1.1% pace in the euro area.

Nice figure, is it yours?

A third cosmetic treatment is the way quarterly GDP figures are published. European press releases give the increase in GDP during the latest quarter-a rise of 0.9%, say. But Americans annualise quarterly growth, so an identical increase would be announced as a more impressive-sounding growth rate of 3.6%. Much more important, European economies' initial estimates of GDP growth tend to be more cautious than those in America. Kevin Daly, an economist at Goldman Sachs, estimates that during the ten years to 2008, America's quarterly GDP growth rate was, on average, revised down between the first and final published estimates by an annualised 0.5 percentage points. In contrast, GDP figures in the euro area were revised up by an average of 0.3 points. This matters because financial markets and the media focus heavily on the first estimate, but largely ignore revisions several years later.

A more controversial issue is the extent to which different methods of measurement distort international comparisons of GDP growth. A decade ago some studies suggested that if America compiled its national accounts in the same way as European countries did, its real growth rate might be reduced by between a quarter and half a percentage point.

In some areas divergences have narrowed. America has historically taken more account of improvements in the quality of goods than many European countries. If a computer costs the same as two years ago but is now twice as powerful, this is counted as a 50% fall in price, which has the effect of boosting real output. A decade ago this inflated America's growth rate relative to Europe's, but European countries have also now adopted so-called "hedonic pricing" in some sectors. Another area where Europe has followed America's lead is in counting software spending as an investment (thereby adding to GDP) rather than a business expense as it used to.

Some measurement differences remain, however. For example, America, unlike Europe, counts government spending on military equipment as capital rather than current spending, so the sharp increase in the defence budget over the past decade will have slightly nudged up its GDP growth rate. Another area where measurement differences may have exaggerated America's growth relative to Europe's is in financial services and property. The output of the financial industry is one of the most difficult to measure because most financial services are not explicitly priced. It is also particularly tricky to define the unit of output: is it the sale of one share, for example, or the sale of a block of shares? Finance, insurance and real estate accounted for one quarter of America's GDP growth during 1995-2009 and enjoyed a measured productivity gain of 38%. Yet in the euro area productivity in these sectors fell by 9% over the same period. This looks fishy.

America's financial activity may somehow be reflecting trading gains, which should not be counted as income. It is also possible that the increase in the value of America's housing stock and hence the growth of shelter services consumed by owner-occupiers was overstated. One mitigating factor is that half of the income of the financial sector is from intermediate services provided to non-financial businesses. If the value of such services had been overstated in America, then the growth of real value added in finance would need to be reduced, but that of non-financial industries would be increased, with no effect on overall GDP growth. But if services to households and foreigners had been overstated this would reduce GDP growth.

Conspiracy theorists might conclude that the American government is trying to nip and tuck its way to attractiveness. The persistent downward revisions to GDP growth do look suspicious. But in other areas American number-crunchers seem to believe that their measures are better; indeed, history shows that European statistical agencies have often later adopted their methods. The world's biggest economy is also much less bothered about the international comparability of its numbers than smaller European countries. True, when the statisticians at the IMF or the OECD produce comparative data,

they do so on the basis of standardised definitions. The snag comes if investors fail to grasp that official national figures can show the American economy in an overly flattering light.

Green mega-yachts

Not-so-filthy rich

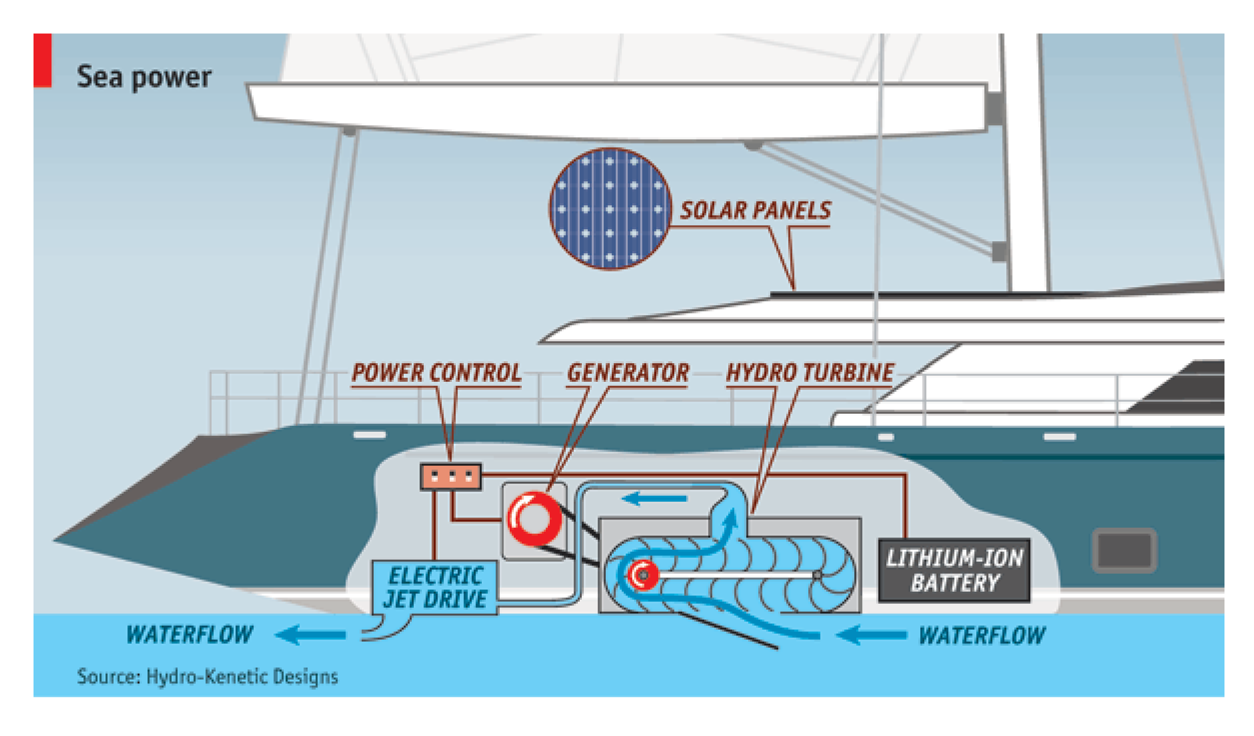
Low-emission luxury yachts are now possible with the latest technology

IN THE world of mega-yachts, with their multiple sun decks, staterooms, jacuzzis, saunas, cinemas and helicopter-landing pads, there might seem little room left for one-upmanship beyond fitting yet more gold-plated taps and a mini-submarine berth. But the modern fashion for greenness has enabled a number of designers to find something new, in the shape of vessels so clean and self-sufficient they might never need refuelling.

Despite the wind-powered image projected by the word, not all modern luxury yachts have sails and those that do rely on their engines during calm weather or when manoeuvring in harbour. Even a medium-sized luxury motor yacht can burn through several hundred litres of diesel an hour while it is at sea. And the generators needed to produce the electricity required by accommodation akin to a small five-star hotel gulp down many more. As John Pierpont Morgan, a financier who was keen on such craft, is said to have remarked, if you have to ask how much a large yacht costs you cannot afford one.

The secret to avoiding gas-guzzling at sea is to go back to the roots of the word "sailing" and extract power from the wind. The difference between the new, green mega-yachts and the sailing vessels of old is that modern batteries mean a proportion of the power can be squirrelled away for future use, and that can reduce running costs in a very welcome way.

The design proposed by Paracas Yachts, a new Miami-based company set up by a group of yachting enthusiasts, collects its energy using traditional sails. Each hull of its catamarans has an underwater duct which serves two functions (see illustration). When the boat is under sail, water forced through the duct turns the blades of a small hydroelectric generator that charges a bank of lithium-ion batteries. When engines are required an electrically powered water jet can be fired from below the stern to propel the boat forward.



Sail power

The company's largest design, the 48-metre-long, three-masted Paracas 158, should be capable of running all of its refrigeration, air-conditioning, lights and other electronics for a week or more without having to start one of its two backup diesel generators or plug into a dockside power source. Once the power begins to run down, an afternoon or so at sea under sail will recharge the batteries, says William Ray, Paracas's director of engineering. If the weather is sunny (and when is it not, where mega-yachts sail?) the batteries can also be topped up by an array of gallium-arsenide solar cells.

There is, of course, a penalty to be paid for diverting some of the water that the boat is passing through into its turbines. But once the vessel is in motion the additional drag results in only a 3-5% reduction in speed, says Mr Ray. Unless you are in a race, this hardly matters. The Paracas 158, with six double cabins for guests and four double cabins for crew, would cost about $22m for the basic boat.

Sails are not the only way of collecting power from the wind, though. Richard Sauter, of Sauter Carbon Offset Design, based in Bali, has worked out a way to do it from the waves the wind whips up using devices similar to the tuned mass dampers (in essence, giant pendulums) mounted inside some tall buildings to stop them swaying. When the pendulum swings in one of Mr Sauter's designs its movement is used to generate electricity, which is then stored in a lithium-ion battery pack. In a cunning economy, Mr Sauter uses the battery pack itself as the bob of the pendulum.

The motion-damping system that is used in Mr Sauter's 78-metre *Ark Angel* is said to be capable of producing 100kW. A further 100kW would come from solar panels built into the carbon-fibre structure of the yacht. In addition, and for extra greenness, *Ark Angel* and the 44-metre *Ocean Empire* (picture below) would be fitted with giant automated kites, to tow them. SkySails, a Hamburg-based company that makes such kites, reckons they can cut a vessel's fuel consumption by half in ideal conditions.



The engines used by *Ark Angel* are electric motors driving counter-rotating propellers, mounted in pods below the hull. This avoids the use of a traditional propeller shaft and puts the propellers in a clear flow of water, which greatly improves efficiency. Cunard's new liner, *Queen Mary 2*, also has propellers mounted in pods under the hull. And, as in a hybrid electric car with a petrol-powered range extender, there is an internal-combustion option. Depending on the cruising speed required, one or more of four low-emission Daimler BluTec diesel engines can be started to generate additional electrical power. Even at 28 knots (52kph), Mr Sauter says *Ark Angel*'s fuel consumption and greenhouse-gas emissions would be cut by about half-as they should be, for building such a craft is likely to cost more than $100m.

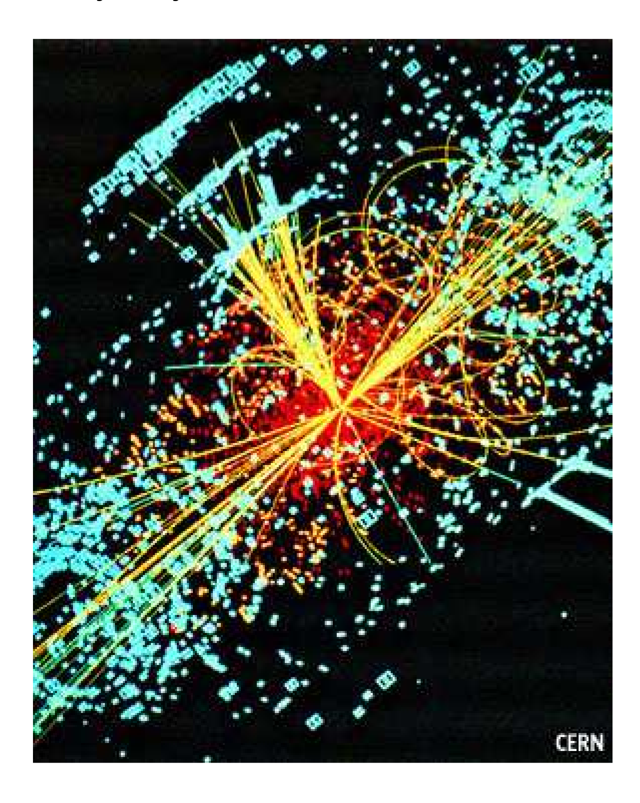
Yet all this is not just for those with Morganesque fortunes. Many commercial vessels, such as refrigerated cargo ships, also have a huge demand placed on their generators. Mr Ray, for one, believes this sort of technology could reduce the fuel consumption and exhaust emissions of quotidian boats, as well as luxury ones, and has set up a company called Hydro-Kinetic Designs to develop the Paracas generating system for working vessels. And SkySails sees broader uses, too. In 2012 it aims to have its biggest kite to date towing a 30,000 tonne cargo ship operated by Cargill, a large food company.

So, the next time you see a party in full swing on a floating gin palace remember this. It might look like everyone is whooping it up in search of a good time, but they could be conducting an important experiment in naval technology.

Hunting the Higgs boson

Indefinite particles

This just in: the Higgs boson has probably not yet been found



ON APRIL 21st physicists held their breath. An anonymous commentator posted a note on a blog, picked up by Fox News, suggesting that researchers at CERN, Europe's main particle-physics laboratory near Geneva, had netted their biggest fish: the "God particle". The Higgs boson, to give the less exalted moniker preferred by scientists, is the hypothetical manifestation of the Higgs field, which is thought to pervade all space and whose interactions with other elementary particles give them mass. It is the missing piece of the Standard Model, a theory which links all the particles and forces of nature bar gravity into a single mathematical framework.

So, is it still missing? According to CERN, the leaked document seems to be an early draft of a "com note" from ATLAS, the largest of the experiments being run in CERN's Large Hadron Collider (LHC). These memos are circulated within the 3,000-strong collaboration to gauge their merit. Most of the 400 or so submitted since the start of the year will not survive initial scrutiny. Even if the note does, there are reasons for caution. Any positive results need to be double checked and replicated, preferably using a different detector (one reason why the LHC has several). Much of the initial haul turns out to be random fluctuations or experimental glitches.

A recent furore around a finding at Fermi National Accelerator Laboratory (Fermilab), CERN's American rival, is a case in point. On April 5th it emerged it had detected what looked like a hitherto unknown particle. Unlike the ATLAS leak, that result got the official nod. Still, many physicists pointed out it could yet prove to be a red herring. With a statistical significance (sigma) of just 3.2, it had one chance in around 1,300 of being a random fluctuation-well short of the sigma 5 (less than one chance in 3.5m) needed to pronounce a new discovery. The ATLAS result purports to have a sigma of 4.

Accelerators can throw up instantly recognisable results. This was the case with the W and Z bosons, particles discovered at CERN in 1983. Their signatures were so evident that the lab announced the results days after they had been recorded.

Traces left by the Higgs are unlikely to be as clear-cut. In this it will resemble the top quark, the latest fundamental particle to have been detected. News of that discovery, at Fermilab, trickled out in dribs and drabs over several months in 1995.

Like the top quark, the Higgs will be conjured up by smashing heavy particles called hadrons (which include protons and their antimatter equivalents). When billions of hadrons are smashed they create heaps of extraneous particles which obfuscate the picture. The hidden prey can be extracted only with some clever statistics. When CERN created W and Z, it did so by smashing much lighter electrons and positrons, which is far less messy.

As the LHC reaches its operational capacity-earlier this month it set a new record for the rate at which collisions occur-curious results are bound to crop up more and more frequently. Expect plenty more herrings, then, red or otherwise.

Index | Science & Technology

Organising the web

The science of science

How to use the web to understand the way ideas evolve

COMPUTER scientists have long tried to foist order on the explosion of data that is the internet. One obvious way is to group information by topic, but tagging it all comprehensively by hand is impossible. David Blei, of Princeton University, has therefore been trying to teach machines to do the job.

He starts with defining topics as sets of words that tend to crop up in the same document. For example, "Big Bang" and "black hole" often will co-occur, but not as often as each does with "galaxy". Neither, however, would be expected to pop up next to "genome". This captures the intuition that the first three terms, but not the fourth, are part of a single topic. Of course, much depends on how narrow you want a topic to be. But Dr Blei's model, which he developed with John Lafferty, of Carnegie Mellon University, allows for that.

The user decides how fine-grained he wants the analysis to be by picking the number of topics. The computer then creates a virtual bin for each topic and begins to read the documents to be analysed. After removing common words that it finds evenly spread through the original documents, it assigns each of the remaining ones, at random, to a bin. The computer then selects pairs of words in a bin to see if they co-occur more often than they would by chance in the original documents. If so, the association is preserved. If not, the words (together with others to which they have already been tied) are dropped at random into another bin. Repeat this process and networks of linked words will emerge. Repeat it enough and each network will correspond with a single bin.

And it works. When Dr Blei and Dr Lafferty asked their software to find 50 topics in papers published in *Science* between 1980 and 2002, the words it threw up as belonging together were instantly recognisable as being related. One topic included "orbit", "dust", "Jupiter", "line", "system", "solar", "gas", "atmospheric", "Mars" and "field". Another contained "computer", "methods", "number", "two", "principle", "design", "access" and "processing".

All of which is interesting as a way of dealing with information overload, and tagging papers so that they can be searched in a more useful way. But Dr Blei found himself wondering if his method could yield any truly novel insights into the scientific method. And he thinks it can. In tandem with Sean Gerrish, a doctoral student at Princeton, he has now produced a version that not only peruses text for topics, but also tracks how these topics evolve, by looking at how the patterns in each topic bin change from year to year.

The new version is able to trace a topic over time. For example, a 1903 paper with the evocative title "The Brain of Professor Laborde" was correctly assigned to the same topic bin as "Reshaping the Cortical Motor Map by Unmasking Latent Intracortical Connections", published in 1991. This allows important shifts in terminology to be tracked down to their origins, which offers a way to identify truly ground-breaking work-the sort of stuff that introduces new concepts, or

mixes old ones in novel and useful ways that are picked up and replicated in subsequent texts. So a paper's impact can be determined by looking at how big a shift it creates in the structure of the relevant topic.

In effect, Dr Blei and Mr Gerrish have devised an alternative to the citation indices beloved of scientific publishers. These reflect how often a particular publication or author is cited as a source by others. High scores are treated as a proxy for high impact. But a proxy is all they are.

Dr Blei and Mr Gerrish are not claiming their method is necessarily a better proxy. But it can cast its net more widely, depending on the set of documents fed into it at the beginning. Citation indices, which work only where publications refer to their sources explicitly, form a tiny nebula in the digital universe. News articles, blog posts and e-mails often lack a systematic reference list that could be used to make a citation index. Yet they, too, are part of what makes an idea influential.

Besides, despite academia's pretensions to objectivity, it is as subject to political considerations as any area of human endeavour. Many authors cite colleagues, bosses and mentors out of courtesy or supplication rather than because such citations are strictly required. More rarely, an author may undercite. Albert Einstein's original paper on special relativity, for example, had no references at all, even though it drew heavily on previous work. The upshot is that the Blei-Gerrish method may get closer to the real ebb and flow of scientific ideas and thus, in its way, offer a more scientific approach to science.

Deep-sea vents

Ocean-floor migration

How surface winds blow deep-sea critters from vent to vent



Getting ready to move home

EVER since their discovery in the 1970s, deep-sea vents-chimney-like structures on the ocean floor that belch hot water and dissolved minerals into the surrounding ocean-have been one of the hottest topics in marine biology. The vents support populations of bacteria, giant worms, clams, shrimp and other creatures in the inky darkness, often several kilometres below the surface. Unlike virtually every other ecosystem on the planet, these deep-sea communities do not rely on the sun for their food. Instead of using photosynthesis, the bacteria at the bottom of the food chain harvest energy from chemicals supplied by the vents themselves.

The vents are both widely spaced and transient, which means their denizens live a precarious existence. Yet travel between vent systems is apparently possible, even across miles of desolate ocean floor. Creatures confined to islands rapidly head in a different genetic direction to mainland relatives; but researchers have found surprisingly little genetic variation between the populations of even quite widely spaced ocean-bottom vents. Last year one paper described how a vent system that had been wiped clean by a volcanic eruption was quickly recolonised by a variety of larval creatures, some of which seemed to have travelled from another vent more than 300km (190 miles) away. Exactly how has remained a mystery.

Now a group of scientists led by Lauren Mullineaux at America's Woods Hole Oceanographic Institution has described in *Science* how such transfers could happen-and, in the process, discovered something surprising about how surface weather influences the deep ocean, traditionally thought of as an isolated, closed world.

The group was monitoring vents more than 2km beneath the surface in the Pacific Ocean off the coast of Central America when it found that quantities of larva and certain chemicals being emitted both fell sharply during periods of unusually strong deep-sea currents. This is consistent with larva and effluent from the vents being swept away into the open ocean. As a colonisation strategy, dispersal by ocean current would be unreliable-with vent systems so scarce, most of the larva swept out to sea would presumably perish-but plenty of plants on land adopt a similar approach using the wind.

The research offers more than just an insight into the life cycle of subsea gribblies. The powerful deep currents were strongly correlated with the passage of wind-generated mesoscale eddies: swirls of water tens or even hundreds of kilometres across on the ocean surface. The idea that surface winds can influence deep-sea currents is surprising, and it suggests that the atmosphere's influence may extend far deeper into the oceans than previously thought. The researchers found that the surface eddies-and presumably, the deep currents as well-tended to form between autumn and spring, and were more common during El NiÃ±o years. Even in the frigid darkness of the deep ocean it seems there may be weather and seasons of a sort.

Congo

Chronicle of death ignored

Five million people have died in Congo in a war that no one really understands

Dancing in the Glory of Monsters: The Collapse of the Congo and the Great War in Africa. By Jason Stearns. *PublicAffairs; 400 pages; $28.99 and pound18.99.* Buy from Amazon.com, Amazon.co.uk



OVER the past 15 years war in the Democratic Republic of Congo has consumed as many as 5m lives, often gruesomely: children murdering in gangs, civilians massacred by the thousand, rape as common as petty thievery. And yet, who can name the man responsible?

The fact that the war is so recent adds to the confusion; splinter conflicts continue. Time is not only a healer but also a revealer and crystalliser of atrocities. Only with the trial of Adolf Eichmann in 1961 did the term "Holocaust" become common currency for Germany's extermination of the Jews in the second world war. The complexity of the conflict in Congo further obscures its significance. It has no Stalingrad, no Stalin. Murder there has been systemic rather than systematic in the manner of the killings at Auschwitz. Death has been abundant, though often with no clear perpetrator; many of the deaths have been as a result of war-wrought diseases.

Despite at one time having the world's biggest UN peacekeeping mission, Congo, Jason Stearns argues, should be ranked alongside Germany, Russia and China as one of the great vortexes of recent human violence. The conflict sucked in armies from nine nations, spawning at least 20 rebel groups that fought 40 or 50 interlocking wars within wars in a country as big as western Europe, but with few roads. Ethnic rivalry, lust for power, security concerns, poverty and greed all played a role, yet no side had a clear objective.



The 1994 genocide in next-door Rwanda lit a fuse in Congo. In 1996 a rebel army from eastern Congo marched a thousand miles across the lush country to depose Mobutu Sese Seko-he of the leopard skin fez-whose regime had been badly weakened by the winding down of Western support after the cold war. Arriving in Kinshasa, the capital, the rebels' leader, Laurent Kabila, admonished the crowds, "Who has not been Mobutist in this country? We saw you all dancing in the glory of the monster."

Tens of thousands of refugees had been killed in his journey west; in that sense Kabila was no better than his predecessor. He also jailed opponents and turned the treasury into his personal piggy bank, sometimes with bizarre results. When an official visitor asked for directions to the toilet at Kabila's residence, a guard nervously searched for the key to a locked en-suite bathroom. Eventually the visitor was led to another building to relieve himself, while Kabila admonished the guard, "You idiot! I had the key the whole time! All my money is stored in that toilet."

The state crumbled further under Kabila's rule, and rebellion followed rebellion until he was shot by one of his own former child soldiers in 2001. His son took over, managing eventually to contain the conflict in the east of the country, where it continues to fester, fed by hunger for the area's abundant mineral deposits and by the presence of rival outsiders, notably its Rwandan neighbours. Mr Stearns, an American former journalist and UN worker who has spent a decade following the conflict, speaks many of the local languages and has a knack for loosening tongues. He is at his best when exploring the role that Rwanda has played in the war.

It is tempting to see the conflicts in both countries as essentially one. In the early 1990s ethnic Tutsi rebels from both sides of the border had fought the Hutu-led Rwandan government, which was supported by Mobutu. After the Rwandan genocide many of the Hutu perpetrators fled to eastern Congo, where they regrouped. To stop them, Rwandan Tutsis recruited Kabila, an ageing revolutionary, and engineered his rise. When he eventually turned against them, they found new proxies and in 1996 invaded themselves, driven by fear of the *genocidaires*, a lust for revenge and a growing appetite for diamonds. This launched the first Congo war.

Can this explain the appalling brutality of the conflict? Half a million women raped, some young girls of only five raped with gunbarrels or sticks, pregnant women disembowelled. Mr Stearns has met men who routinely killed 100 people a day, "using a rope to crush their windpipes and strangle them". He asks how you become a mass murderer and finds unthinking machismo and delirium from years of abuse, but also strategic considerations. He seeks "a rational explanation for a truly chaotic conflict" and refuses to fall back on easy answers like the wanton savagery of Joseph Conrad's "Heart of Darkness". "The killers wanted to show the villagers...the consequence of any resistance. There were no limits to their revenge-they would kill the priests, rape the nuns, rip babies from their mothers' wombs, and twist the corpses into origami figures."

Mr Stearns enriches his narrative with portraits of the main actors-men such as Kabila's son and successor, Joseph, who panicked at the sound of gunfire-and an array of personal anecdotes. When Mobutu, shortly before his fall and riddled with cancer, ordered the printing of yet another new banknote to try and combat chronic inflation, it was dubbed "The Prostate" since the zeroes expanded as quickly as the leader's gland. After the fall Kabila's men found a single French 50-franc note in the central bank, left behind "as an insult". Mr Stearns is not a scholar of central Africa in the manner of Rene Lemarchand and Gerard Prunier. But he is probably the most widely travelled and the most meticulous and empathetic observer of the war there. This is a serious book about the social and political forces behind one of the most violent clashes of modern times-as well as a damn good read.

Index | Books & Arts

The financial crisis

Hank's for the memory

The collapse of an unimpeachable credit

Fatal Risk: A Cautionary Tale of AIG's Corporate Suicide. *By Roddy Boyd. Wiley; 349 pages; $27.95 and pound18.99.* Buy from Amazon.com, Amazon.co.uk

THE collapse of first Bear Stearns and then Lehman Brothers in 2008 were the emblematic events that triggered the financial crisis. But those companies were involved in investment banking, an inherently risky business. The demise of AIG, an insurance company that was for a long time judged to be an unimpeachable credit, was even more astonishing.

Indeed, as Roddy Boyd demonstrates in his well-written study of AIG's fall, it was the very solidity of the company's credit rating that led it astray. Painstakingly built over the course of 40 years by an army veteran, Hank Greenberg, AIG was the ideal counterparty for Wall Street.

So when banks created products known as collateralised debt obligations (CDOs) linked to mortgage-backed bonds, it was natural for them to seek AIG's involvement. AIG was asked to insure the safest element of these CDOs that would lose money only if all other investors were wiped out. All the models suggested that would never happen. To the whizz kids at AIG's financial products division it seemed like free money.

There was just one flaw in the plan. AIG was required to put up collateral against the deals. And that collateral could be increased if the securities fell in price, which they duly did as the scale of the American housing crisis became clear. Suddenly AIG was on the hook for billions, with Goldman Sachs the creditor-in-chief. A death spiral had begun.

AIG displayed many of the warning signs associated with other scandals: a dominant chief executive in the form of Mr Greenberg; an opaque financial structure that was hard for investors to monitor; and a growth-driven strategy that created the temptation to take risks.

What complicates this narrative is that Mr Greenberg had already been forced out of the company in 2005, a victim of New York's attorney-general, Eliot Spitzer. Would Mr Greenberg, whose nose for risk was legendary, have limited the exposure to CDOs? Perhaps, although he failed to stop the questionable deals that had given Mr Spitzer the ammunition to use against him.

For some, the demise of AIG was not the suicide described in the book's title, but an act of murder by Goldman. Mr Boyd argues that the investment bank was acting only as any prudent counterparty would. But the author's analysis is unlikely to dent the conviction of conspiracy theorists that AIG was rescued by Hank Paulson, the former Goldman chief executive turned treasury secretary, to prop up Goldman.

Index | Books & Arts

Paul Allen

Office politics

Behind the scenes at the start of Microsoft

Idea Man: A Memoir by the Co-founder of Microsoft. By Paul Allen. *Portfolio; 368 pages; $27.95.* Penguin; pound20. Buy from Amazon.com, Amazon.co.uk



That's about the size of it

ASKED to pen an endorsement for Paul Allen's new autobiography, Bono, a well-known musician, declares that the co-founder of Microsoft's "...intellect and generosity of spirit are there on every page". He is only half right. "Idea Man" does provide plenty of insights into the ways in which Mr Allen has helped revolutionise everything from software to space travel. But its pages are also permeated by a bitterness towards Bill Gates, the man with whom he created a company that transformed the world of technology. Indeed, there are enough sour grapes in these pages to fill an entire vineyard.

The irony is that the primary focus of Mr Allen's resentment-his co-founder's intense competitiveness-is also one of the things that propelled Microsoft to greatness. That trait, and the tension that it provoked between the two men, is evident from the time they meet at school. Mr Allen describes how Mr Gates became apoplectic when a practical joke he played on Mr Allen backfired. In another vignette, he portrays his pal sweeping the pieces off a chessboard in fury when he lost yet another game to Mr Allen.

As any veteran of a start-up will tell you, the strains of building a company can be enough to undermine even the strongest partnerships. In the case of Microsoft, set up in 1975, the surprising thing is that the union between the two men lasted as long as it did given the tension that already underlay their friendship. Mr Allen eventually walked out of the company in 1983 (although he kept his stake in the business), leaving Mr Gates in sole charge of Microsoft, which then went on to turn both men into billionaires.

The main reason the tandem held together for more than a couple of years was that each of the entrepreneurs brought something valuable to the table. Mr Gates's single-minded focus on winning everything, whether a chess game or a vital business deal, was complemented by his partner's ability to see the bigger picture-an ability reinforced by Mr Allen's eclectic set of outside interests, ranging from music to sport and science fiction. Mr Allen acknowledges that the two men were "extraordinary partners". He likens their union to that of Bill Hewlett and David Packard, or Larry Page and Sergey Brin, the founders of Google.

But rather than going on to give Mr Gates the considerable praise he is due for turning Microsoft into a corporate Leviathan as its chief executive, the book instead dwells on the clashes that the two men got into over the size of their respective ownership stakes while they were still working together-arguments that were stoked by Mr Gates's fear that his partner was not sufficiently committed to making Microsoft a success. In the end, Mr Allen, who has already suffered two bouts of cancer, decided to leave to pursue other projects.

True to the title of the book, many of these have involved experiments that explore the limits of human ingenuity in realms such as private space flight, brain science and digital knowledge-gathering. Using his Microsoft riches, Mr Allen has also accrued some of the typical trappings of billionairedom: professional sports teams, famous friends such as Bono, and a mega-yacht, the *Octopus*. He has also given away a great deal of money. Mr Allen has clearly done a lot. Perhaps

one day he will also find the generosity of spirit to admit that Mr Gates deserves far more credit for making all of this possible than he gets in "Idea Man".

Index | Books & Arts

New north African fiction

Tangle of ties

The song of the bewildered immigrant

A Palace in the Old Village. By Tahar Ben Jelloun. *Arcadia Books; 165 pages; pound8.99.* Buy from Amazon.co.uk



AFTER years of diligent, uncomplaining toil on the Renault assembly line, Mohammed has retired. But life at home in the Yvelines housing project, on the outskirts of Paris, is suddenly empty: his sons and daughters ignore him, and seem from another world. "My children have Arab features and gestures, but they claim they are 'assimilated', a word I've never understood." Only Nabile, the Down's syndrome nephew he treats as a son, gives Mohammed constant delight and unquestioning love. No wonder Mohammed's dream grows ever more insistent: he must return to the Moroccan village he left four decades earlier; he will use his pension to build the biggest house in the village; and all his children and grandchildren will come to be with him.

So much for the dream. The reality of Mohammed's return (by train, boat, bus and taxi now that his car has been torched-among dozens of others-by the rampaging youth of the projects) is destined to disappoint him. As Tahar Ben Jelloun explains in this marvellously poignant novel (expertly translated from the French by Linda Coverdale), the illiterate Mohammed has never lost-nor wanted to lose-his Berber roots and devotion to Islam. By contrast, his children are French and European, and yet are not always accepted as such. In short, Mr Ben Jelloun, returning to a theme he has written on before, depicts the plight both of the immigrant and the child of the immigrant.

The book is not a polemic on the defects of modern France, with its Arab and African minorities crammed into the *banlieues*, the housing projects in the suburbs of its cities. The victory of the far-right's Jean-Marie Le Pen in the first round of the 2002 presidential election is mentioned almost in passing ("I had a good laugh," says Mohammed, "but my wife was afraid and wondered if we should start packing"). The political context is less important for Mr Ben Jelloun than the personality of Mohammed himself: he is a genuinely good man, keen always to do his duty both at the factory and at home. Yet he is the prisoner of his culture, unable to adapt to the ways of France or to understand his "assimilated" offspring.

Mr Ben Jelloun, of course, has no such problem. Born in Fez in 1944, he came to France at the age of 27 and has long since been part of the French literary firmament (he won the Prix Goncourt in 1987 for "La Nuit Sacree"). This latest book, published two years ago in French as "Au Pays", is proof that this particular immigrant's star still shines brightly.

Lawrence of Arabia

Prince of his disorder

T.E. Lawrence was complicated, contradictory and controversial

Hero: The Life and Legend of Lawrence of Arabia. By Michael Korda. *Harper; 762 pages; $36. JR Books; pound25.*
Buy from Amazon.com, Amazon.co.uk

LAWRENCE OF ARABIA is a modern myth. The subject of more than 100 books, several of them full-length biographies, Lawrence is best remembered from David Lean's 1962 epic film, which did much to burnish his heroic reputation, albeit at the expense of strict historical accuracy. T.E. Lawrence was, and remains, a controversial, contradictory character, both warlike and scholarly, vain and modest, part showman, part hermit; he was ambitious yet racked with self-doubt and guilt. Michael Korda's magnificent new biography examines anew the man Jan Morris has called a "confused and enigmatic exhibitionist".

Mr Korda blows away the preconceptions that cloud much of the existing literature on Lawrence. He tells the story of Lawrence's early life, of his illegitimacy and his difficult relationship with his mother, without the flights of psychoanalytical speculation that have plagued some previous studies of the man.

The heart of the book is devoted to Lawrence's role in the Arab revolt of 1916-18, the origin of his romantically heroic reputation. Mr Korda deals even-handedly with Lawrence's role, demonstrating that, although he was not solely responsible for the revolt, his remarkable leadership, courage and physical endurance gave the campaign vital cohesion and impetus. Lawrence, an academic without formal military training, displayed an astonishing grasp of both regular and irregular military tactics. His campaign with the camel-mounted Bedouin tribesmen against the Turks was a masterful exposition of the principles of guerrilla warfare. The tribesmen attacked the enemy with small, highly mobile units, forcing it to defend itself along a huge front. Likewise, Lawrence became a master of the set-piece engagement-albeit on a small scale-as his victory over the Turkish army at Tafileh in January 1918 so amply demonstrated.

Once the war was over, Lawrence continued the struggle for an independent Arab state at the Versailles conference. His aspirations foundered on the rocks of British and French colonial ambition, notably the twin reefs of the notorious Sykes-Picot agreement of 1916 and the Balfour Declaration of 1917. Mr Korda argues that Lawrence was "partly responsible" for the formation of modern Iraq and Jordan and played a substantial role in "the creation of Palestine as a separate entity". This salved his conscience for having encouraged the Arab revolt, but it is also his legacy to the present.

A central strand of the Lawrentian myth was his decision in 1922, at the height of his fame, to enlist under an assumed name as a lowly aircraftman in the Royal Air Force (RAF), where he remained almost until his death in a motorcycle accident in 1935. Lawrence's reputation and apparently irresistible newsworthiness were a constant embarrassment to the RAF. At one point he was posted to India for two years to remove him from the limelight.

Mr Korda is especially good on this last phase of Lawrence's life, when despite his desire for humdrum anonymity he was unable to bring himself wholly to sever the links with his former life. Thus he would arrive on his motorcycle at the grandest houses in the uniform of an RAF rank-and-filer and nurture his friendships with the powerful and famous, including Winston Churchill and George Bernard Shaw. The breadth of his friendships is testament to Lawrence's compulsive, almost hypnotic allure. Mr Korda also deals interestingly with the convoluted genesis of Lawrence's great book, "Seven Pillars of Wisdom", which reveals much of its author's contradictory, even contrary, motivations.

Mr Korda's prose skips along through 700 pages but he cannot resist the biographer's twitch of making pointless, speculative claims for his subject. Thus the reader is told that on a visit to Egypt in 1912 Lawrence "may be the only visitor to pass through Cairo without bothering to see the Pyramids". Likewise, Mr Korda asserts that Lawrence "may have been the only person in 20th-century Britain who was just as much at ease with King George V as with a hut full of RAF recruits". This apart, "Hero" is a wonderfully intelligent, sweeping and highly readable account of the life and achievements of one of Britain's most glamorous yet complex and mysterious colonial buccaneers.

Classical guitar

Fingersmith

After years in the doldrums, classical guitar has a bright new voice



The keys of the kingdom

THERE was a time in the late 17th century when no respectable monarch would be seen without a guitar. Both Louis XIV and Charles II were dab hands. And the future Queen Anne thought a guitar tutor was worth an annual stipend of pound100, which was a small fortune then.

The instrument has seen revivals in the early 19th century and the early 20th, when its place in the concert hall was finally secured by Andres Segovia. A further decade in the sun in the 1970s resulted from the maturity of two gifted young guitarists: Julian Bream and John Williams. But in the past three decades this subtle musical voice has grown quieter and quieter. Until now. Deutsche Grammophon has signed its first classical guitarist for years. Milos Karadaglic's debut CD of Mediterranean repertoire is out this month and includes pieces by two popular composers, Isaac Albeniz and Joaquin Rodrigo.

The 27-year-old Montenegrin blames the pop world for his instrument's demise. "With the invention of the electric guitar, the instrument stopped being intimate and started to reach out into wider audiences," he explains. "These technological advances resulted in the core classical guitar repertoire fading away. The guitar's popularity within pop detracted from its popularity within the classical world."

But the electric guitar didn't blow its classical cousin out the water. In the 20th century interest in the older, more refined instrument waxed and waned. Why? One theory puts it down to economics. The two decades that saw the classical guitar thrive were decades of recession-the 1930s and the 1970s. Now, during another financial crisis, the classical guitar's intimate strains seem again to be offering a spiritual succour in straitened times.

Mr Karadaglic thinks the reason for the latest upward interest may be simpler: an attempt by man to escape the technological flimflammery of the modern world. "Advanced technologies are taking away our privacy," he argues, "Twitter, Facebook and my iPhone are amazing. But if you don't control it, it can overcome you. So another cycle is starting. People are now realising the beauty in things that are pure and natural." And no instrument, he insists, can compete in these stakes better than the guitar, whose every sound is made sensitively and directly by the hands: "The honesty of this way of music-making makes the guitar supreme. It's so personal and delicate."

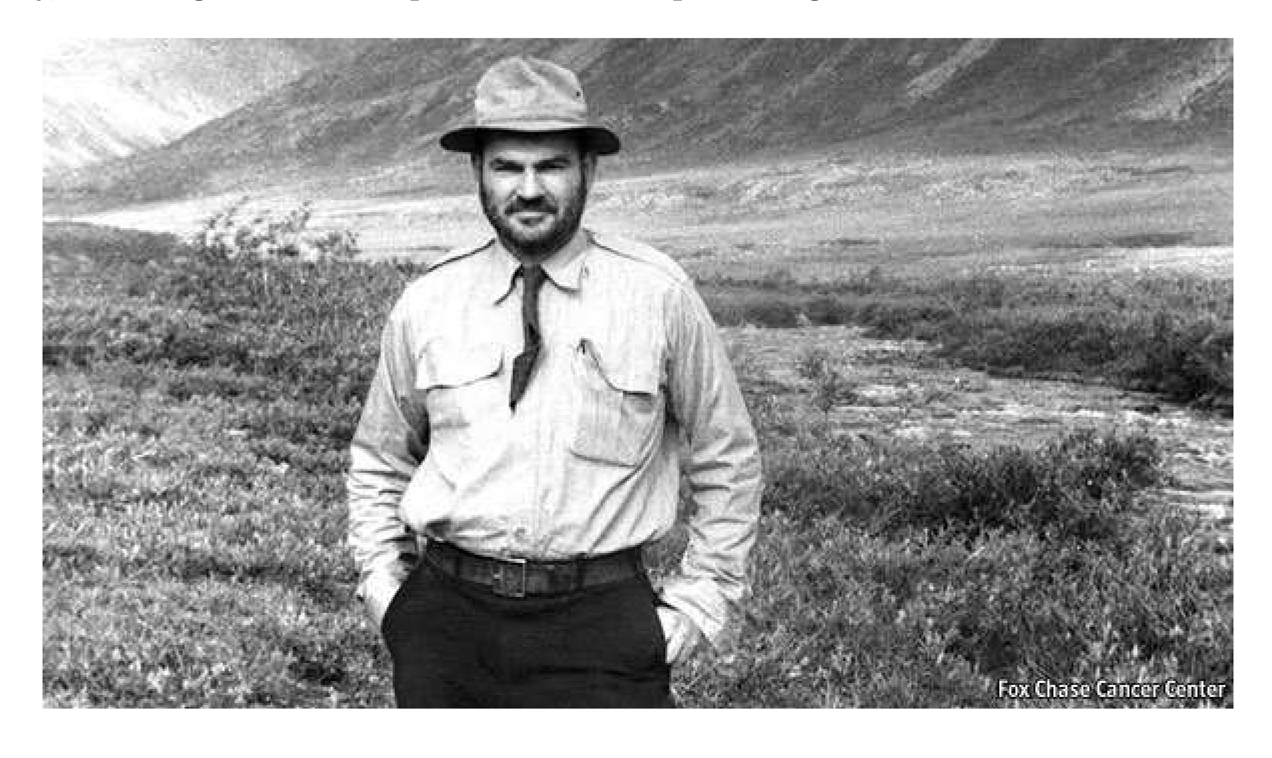
Classical guitar has always relied on larger-than-life individuals, too. A visit to London by a great virtuoso, Fernando Sor, sparked British guitaromania in the 1820s. In the past 50 years many of the most charismatic guitarists were poached by the pop world, while the classical guitar was left with cardiganed beardies.

But Mr Karadaglic and his film-star good looks-which were put to early use entertaining his countrymen on Yugoslav television during the 1990s-could change that. The guitar has never been collectivised or corralled into an orchestra like the violin. It is the cat of the musical world. And as such, it has developed many divergent traditions. For the first time its most dangerous rival, the electric guitar, is seeing fashions turn against it. Taste in pop music (heading folkwards) and classical appear to be coming together. "When you look at pop music over the past few years, it's all retro. Everything is retro. Everyone is going back to their roots. So it's the perfect time for the classical guitar to find a new lease of life and new cycle." That is the guitarist's argument, but it's the music itself that really speaks.

Index | Obituary

Barry Blumberg

Baruch (Barry) Blumberg, defeater of hepatitis B, died on April 5th, aged 85



ALTHOUGH it was medicine for which he won his Nobel prize, Barry Blumberg was really an explorer. Growing up in Brooklyn, he dreamed of being Shackleton at the South Pole or Darwin on board the *Beagle*. His heroes were Lewis and Clark, the intrepid explorers of the new American continent, and the field-trip grants he founded in later life were named after them. Invited to China in 1977 to talk about his great discovery, a virus that caused hepatitis, and his greater invention, a vaccine to prevent it, he would slip out in the early mornings to run for hours through fields, farmyards or the just-stirring streets of Beijing. As master of Balliol College, Oxford from 1989-94-the first American to hold the post, and the first scientist-he would pedal out eagerly into the countryside, his burly frame well waterproofed against the English weather, to see what he might see.

On these trips he would have a vague plan A, a goal in view, for he had learned to appreciate planning during a wartime spell in the navy; but plans B and C might be good, too. Like Tristram Shandy, he preferred the apparently random and open-minded route. His scientific method was to gather huge amounts of data, with exuberant curiosity, in order to let some discovery surprise him. "Goal-oriented" institutions, such as the National Institutes of Health, found it hard to work with him, and he with them, but he would cheerfully decamp to freer places, such as the Institute for Cancer Research, which let him roam until relevance emerged from his roamings. "Expect the unexpected" was his motto-after Heraclitus, who said you could never step into the same river twice.

His career in medicine (itself unexpected, since he had wandered towards maths, in the steps of his Uncle Henry, and then physics, all within the reach of his omnivorous intelligence, before ending up, at his father's stray suggestion, at Columbia University's medical school) was animated not by a goal, but by a question. Why did some people fall sick, when others did not? As a young doctor on the hellish, Hogarthian wards of the Bellevue Hospital in lower Manhattan, he noticed that some among his poor, desperate patients contracted TB, while others stayed healthy. A field trip in 1950 to Suriname, to a remote township reachable only by river, reinforced the puzzle: native Creole workers in the sugar plantations often developed elephantiasis, but Javanese did not. Dr Blumberg became fascinated by polymorphism, the study of inherited variations in human beings. Round the world he went, to Nigeria, Australia, the Arctic, India, taking thousands of blood samples, hoping something would show up.

What showed up one day in 1964, quite unexpectedly, as he was studying yellow jaundice, was a mysterious protein in the blood of an Australian aborigine. It turned out to be the surface antigen, or immune-response trigger, for hepatitis B-a principal killer among the world's diseases, and a chief precursor of liver cancer. Once the virus and its antigen were found, Dr Blumberg and his team devised tests for it, so that donors could be screened before giving the blood that often transmitted the infection. They also made a vaccine for it, the first "cancer vaccine" ever invented.

Deep past to distant future

The scientific establishment was reluctant to accept his work, and pharmaceutical companies were slower to develop it; Dr Blumberg felt like a usurper battering at the palace gates. Defiantly, and with typical generosity, he shared his findings with the world, sending out reagent kits and copies of his patent to anyone who wanted to carry forward his research. At last, in 1982, Merck put the vaccine on the market. Its effects were dramatic. In China the chronic hepatitis B infection rate among children fell from 15% to around 1% in a decade; in the United States and many other countries, post-transfusion hepatitis B was almost eradicated within a few years. Public immunisation programmes, urged on by Dr Blumberg in private chats with the high-and-mighty, saved and are still saving millions of lives.

His work, and especially his Nobel in 1976, made him famous: famous enough to become president in 2005 of the American Philosophical Society, a gathering of "Men of Speculation, Virtuosi, Ingenious Men" where he sat, delighted, in Benjamin Franklin's own office. He was also chosen quite unexpectedly, in 1999, to be the first director of NASA's Astrobiology Institute. This too was devoted to asking questions, in this case the weightiest: How did we get here? Are we alone? What is the future of humans in space?

Both settings, old and new, were ideal for him. At the Astrobiology Institute he urged collaboration across disciplines and generations, always taking the long view, for by comparison with the history of the hepatitis virus (observed, at least in its pathology, by the Babylonians), space research was in its infancy. Life might assume any form out there: like the bacterial specks imagined in the oceans of the sixth moon of Jupiter, or the micro-organisms that survived in the savage deserts and thermal pits of Earth, or like the graceful arc of lipoproteins that had announced the surprise arrival of the hepatitis B antigen in his life. Again, he wouldn't know what he was looking for. But the only conceivable failure would be to give up exploring.
